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ROYAL COMMISSION

ON

TRANSPORTATION

HEARINGS

HELD AT

OTTAWA

VOLUME No.:

92

DATE:

SEP. 22 1960

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ROYAL COMMISSION ON TRANSPORTATION

Proceedings of hearings held
in the Court Room, Board of
Transport Commissioners Offices,
Ottawa, Ontario, on the 22nd
day of September, 1960.

COMMISSION

Mr. M. A. MacPherson, Q.C.	Chairman
Mr. H. Anscomb	Member
Mr. A. M. Balch	Member
Mr. R. Gobeil	Member
Mr. H. A. Mann	Member
Mr. A. Platt	Member

COMMISSION COUNSEL

Mr. A. G. Cooper, Q.C.	
Mr. G. S. Cumming	
Mr. H. W. Ellicott	Adviser
Mr. F. W. Anderson	Secretary
Major N. Lafrance	Assistant Secretary



Ottawa, Ontario,
Thursday,
September 22, 1960.

---On commencing at 10.00 a.m.

THE CHAIRMAN: Order, please.

I think the first thing this morning is to speak to the question of dates. Now, we cannot please everybody, and we probably please nobody, but what we have ruled is that Manitoba shall go on today and tomorrow. Will you finish in-chief, do you think?

MR. MAURO: Oh, yes.

THE CHAIRMAN: Well, we will not sit on Saturday because the Board must consider Mr. Frawley's motion, amongst other things, and on Monday Mr. Saunders will be here to give evidence in-chief -- Monday and Tuesday. But he must not deal with grain techniques, costing techniques. We are still hopeful that some arrangement can be made to shorten up the impasse on grain techniques.

Then, after Mr. Saunders' cross-examination, Manitoba will go on until finished. Then, we will adjourn until the 11th of October, when Mr. Frawley will start. After Mr. Frawley's evidence is finished, and there has been cross-examination of his witnesses, the C.P.R. and C.N.R. cases will go on.

Saunders' cross-examination on Volume I will be immediately followed by his cross-examination on his Volume II on the cost question, and then Mr. Banks and Mr. Borts.



1
2 We are extremely anxious to get this whole
3 thing in and to finish it by Christmas, and unless we
4 make progress in this way it will be impossible to do
5 it.

6 Now, these are the rulings.

7 MR. SINCLAIR: If the Commission pleases, I
8 have some comments I would like to make in regard to
9 the directions the Commission have made, and in par-
10 ticular I would like to refer the Commission to the
11 transcript, Volume 19, of December 16, 1959. And
12 so that this may be put in its proper context, Mr.
13 Chairman and Commissioners, I would like to say how
14 this arose.

15 The Commission will realize that at its
16 meeting in September a year ago, the railways were
17 directed to produce their full story and submission in
18 respect to the Crow's Nest issue and to file them by
19 specific dates, and to file their precis of evidence.

20 The Commission fixed a hearing commencing in
21 December to deal with these matters.

22 Notwithstanding that direction of the Commis-
23 sion, and I must say in parentheses that the railways
24 did comply with the orders, and notwithstanding the
25 direc.ion then made by this Commission, Mr. MacKimmie,
26 joined in by my friends from the provinces, requested
27 adjournment of cross-examination of the costing witnesses.

28 This was objected to by railway counsel Mr.
29 McDonald, on behalf of Canadian National, and myself
30 on behalf of Canadian Pacific. The Commission took



1
2 it under consideration and they ruled that they would
3 give effect to the objections to proceeding raised by
4 the grain handling organizations' counsel on behalf of
5 his clients, and the similar objections of other counsel
6 from the western provinces. The Commission accordingly
7 fixed March for the cross-examination of certain of the
8 costing witnesses.

9 Again, this was not proceeded with, and the
10 cross-examination took place in June, when the Commission
11 said that this was to go on in March.

12 In December, I requested the Commission in
13 these words, on December 16, 1959, page 2628:

14 "I would ask the Commission to direct
15 that the substantive case that has been
16 referred to of the western provinces and
17 of the grain trade -- the pools and the
18 UGG and Northwest Line -- also proceed
19 immediately following the cross-examination
20 of the cost witnesses, and that the rail-
21 ways be given a full precis of their
22 substantive case not later than, we will
23 say, the 15th of February next."

24 I went on on other matters. You, Mr. Chairman, said:

25 "We will give consideration to your
26 suggestion, Mr. Sinclair, but will make
27 no direction today."

28 Mr. Macdougall said:

29 "I would like to associate the Canadian
30 National with Mr. Sinclair's request"



1
2 and ask the Commission to so rule as soon
3 as it finds it convenient."

4 You, sir, said:

5 "We will make no direction at the
6 moment, but we will direct in that
7 respect."

8 Of course, we were relying on that statement. You
9 said that you knew you could not please everybody,
10 but that you would make directions, and you did so.
11 You have made more than one. The last was made and
12 an official notification issued which reached me
13 on June 20th last. There is a lot more in the
14 transcript that could be referred to leading up to
15 this, but this made clear what the Commission was
16 saying to the people who still had submissions to
17 make.

18 This is its final order:

19 "Grain marketing organizations will
20 follow the provinces; submissions of
21 the grain marketing organizations are
22 due August 15, 1960.

23 "Governments of the Atlantic provinces,
24 Saskatchewan, Manitoba and Alberta
25 are due August 15, 1960.

26 "Canadian National and Canadian
27 Pacific railways will follow the grain
28 marketing organizations; submissions
29 are due September 15, 1960."

30 In accordance with that direction, the railways did



1
2 comply; the Atlantic provinces did comply; Saskatchewan
3 did comply; and British Columbia had complied.

4 Now, Mr. Chairman, we now find ourselves --
5 and I can refer to the transcript of the other day,
6 just this last week, in which you said to all counsel:

7 "We make orders and we expect them to
8 be carried out."

9 At another place in the transcript -- away back last
10 December -- you announced to all counsel:

11 "Cooperate on dates, but failing agree-
12 ment between counsel on dates we shall
13 rule."

14 These are your words, sir, not mine:

15 "We shall rule."

16 A categorical imperative. Yesterday we had counsel
17 for the province of Alberta say, "Well, now, I didn't
18 think the dates were important. The only thing
19 that I am guilty of is that I did not tell the
20 Commission that I was not going to comply with its
21 order. I just didn't do anything." And I want to
22 make it clear to the province of Alberta counsel that
23 I certainly was including Mr. Banks.

24 Notwithstanding, the fact is clear that
25 Mr. Banks and his type of evidence was included in the
26 direction of the Commission along with all other evidence.

27 Now, Mr. Chairman, I think that we will do
28 our best to comply with the ruling of the Commission
29 as we have done since these proceedings started. We
30



1
2 have not asked to stand down one single witness, with
3 this exception: on the western tour Dr. Winch of
4 Saskatoon presented his brief overnight, and the
5 Commission will well remember the hours and the times
6 the Commission were sitting. We did not feel we had
7 time to do it, and so we asked that he be stood down
8 and his presentation made in Ottawa. This was done.

9 Now, with that single exception the railways
10 have not stood down witnesses. And, without a single
11 exception, the railways have complied with each and
12 every order of this Commission, as they should do.
13 There is nothing to our credit in that. That is what
14 our duty is to do -- to follow the categorical impera-
15 tives of authority, which is the Commission.

16 I have spoken of the prejudice that the rail-
17 ways are under. Let me point it up just a little bit
18 more. Prejudice is something that all tribunals are
19 concerned about. Prejudice that cannot be recovered
20 causes them even greater concern. That is the
21 position of Canadian Pacific in particular. It has
22 only one place to get its money, and that is by selling
23 its services at the best price it can get and by reducing
24 its expenses and controlling its expenses consistent
25 with its obligations and its duties.

26 The management of Canadian Pacific have done
27 this. When the Turgeon Royal Commission was sitting, it
28 was there a long time, but the prejudice was not opera-
29 tive because rate adjustments, general revenue cases,
30 were proceeding at the same time as the Turgeon Royal



1 Commission was conducting its hearings.

2 But this time it is different. By government
3 directive they said to Canadian Pacific and Canadian
4 National: "we are freezing your revenues, your rates;
5 you cannot have a general revenue case until this
6 Commission reports." And the Prime Minister said:
7 "That report will be in our hands within a year." That
8 year has gone. The rates and revenues of the
9 Canadian Pacific and the railways of Canada are still
10 frozen.

11 It may be that counsel are having difficulty
12 with their consultants. They are busy men; Mr. Frawley
13 said they were professional men.

14 Mr. Chairman, so are we all professional
15 men. We have been accustomed, by training, to make
16 arrangements to comply with authority. When we were
17 told to be here, the railways, we brought professional
18 men and had them sit here until it was their turn to
19 be called. Not only that, we had the presidents of
20 these two corporations sit here until it was their
21 turn to be called. We brought professional men
22 from the United States -- Charles Smith, Dr. ~~Ford K.~~
23 Edwards -- and we had them here when we were told to
24 have them here.

25 Now, Mr. Frawley may be having difficulty with
26 some of his people. He says so, and I believe him.
27 But quite frankly, sir, I had trouble arranging with
28 my people to get them here, but I arranged it, as I have
29 done, and as every professional man has done ever since
30 he became a barrister. I do not think that this is an



1
2 excuse or that it should be given weight, and it makes
3 all the worse, sir, when Americans can come and say,
4 "We are busy people and therefore we cannot be there",
5 and prevent the orderly progress of a Canadian pro-
6 ceeding. That is a serious matter.

7 THE CHAIRMAN: Well, Mr. Sinclair, much
8 water has gone under the bridge since a year ago, last
9 September, and we are extremely anxious to wind this up.
10 As my colleague here says, he is like a laundryman from
11 the Congo; he wants to go home, and so do we all.

12 We are anxious to get this cleaned up, and
13 we must make rulings, and we must make progress.

14 As to prejudices, the Commission and you
15 have had Volume I, so if you are prejudiced at all you
16 are prejudiced now, because naturally we read all the
17 evidence that is submitted to us, and merely putting
18 it in the record does not change matters particularly.

19 MR. SINCLAIR: Mr. Chairman, the Commission
20 allowed the people who looked at our material six months
21 to consider it after it was filed. You certainly would
22 not, I would suggest, sir, -- I am sure this is not so --
23 you would not surely ask the railways to spend less time
24 considering the material that is filed by the grain
25 handling organizations and the provinces, if they felt
26 they needed it.

27 THE CHAIRMAN: Well, Mr. Sinclair, we must
28 get through, and we have ruled.

29 MR. SINCLAIR: And we may, then, sir, have to
30 request the same treatment as this Commission extended



1
2 to people of opposite interests.

3 THE CHAIRMAN: We ruled, and that is all
4 there is to it.

5 MR. SINCLAIR: Well, of course, sir, that is
6 a ruling to us and it will be abided by. I wish we
7 could say the same for others on rulings that have been
8 made.



Stechishin, Rutledge,
Trachtenberg, dir.
(Mauro)

15649

1
2 MR. MAURO: Mr. Chairman and Commissioners,
3 yesterday at adjournment Mr. Stechishin was discussing
4 the matter of inter-line rates under the general
5 heading of "Inequities in the General Freight
6 Structure," and we had concluded with the list of
7 competitive stations in western Canada and those
8 that were official interchanges.

9 Q. Would you continue, please, from
10 there, Mr. Stechishin?

11 MR. STECHISHIN: The mere fact that both
12 railways reach a point or even serve a junction point
13 does not give the shipper the right to construct
14 his combination rate on that junction point unless the
15 railways choose to designate that junction point as
16 an official interchange. A check of the railway
17 tariffs indicates 138 common junction points to
18 both railways in western Canada but that interchange
19 is recognized at only 42 of these points. When the
20 railways fail to provide an official interchange at a
21 point where physical interchange is possible, the
22 shipper is compelled to compute his mileage over some
23 other point which has been so designated. In many
24 cases this involves additional mileage with resultant
25 higher rates. For example, suppose a shipper in
26 Winkler, Man. wished to send canned goods to a buyer
27 in Gardenton, Man. This shipment, if sent by rail,
28 would move via C.P.R.

29 We should have the diagram in first, Mr.
30 Mauro.



1
2 MR. MAURO: Mr. Chairman and Commissioners,
3 if you would turn to diagram II-5, the diagram will
4 become 153-G.

5 ---EXHIBIT 153-G - Diagram II-5, Illustrating railways
6 and mileage Winkler to Gardenton.

7 Q. Now, Mr. Stechishin, perhaps with
8 reference to Exhibit 153-G you would carry on with
9 your text.

10 MR. STECHISHIN: This shipment, if sent by
11 rail, would move via C.P.R. 8.1 miles to Plum Coulee,
12 then 23.1 miles to Morris, then 42.6 miles to Winnipeg,
13 then 3.2 miles to Paddington, Paddington being the
14 official interchange. There it would be turned over
15 to the C.N.R. That railway would move the goods 4.3
16 miles back to Winnipeg, then 40.2 miles back to
17 Morris, then 26.0 miles to Emerson and finally 25.3 miles
18 to Gardenton. The total distance via this route is
19 172.8 miles.

20 62. If an interchange were provided at Morris,
21 Manitoba, the nearest point at which the shipment could
22 avoid a back haul, the mileage would be only 82.5 miles
23 or 90 miles less. This is illustrated by Diagram
24 II-5.

25 Q. You have described the situation with
26 regards to inter-line rates in western Canada. What
27 is the situation in eastern Canada?

28 MR. STECHISHIN: Before I answer that
29 question, I should mention that this is just an
30 illustration. There are other instances of a similar



1
2 nature.

3 COMMISSIONER GOBEIL: He is forced to do
4 that?

5 MR. STECHISHIN: He has no choice but to
6 do that.

7 MR. SINCLAIR: You mean there are no shipments
8 move this way?

9 MR. MAURO: If there was any shipment going
10 by Winkler to Gardenton it would go that way.

11 MR. STECHISHIN: They do move by truck;
12 I know that.

13 COMMISSIONER ANSCOMB: If they go by truck
14 they wouldn't go that way?

15 MR. STECHISHIN: No, they would go direct.
16 They wouldn't go through Morris; they would go south
17 of Morris, actually.

18 63. Within eastern Canada a different situation
19 exists. When the Canadian National system was
20 formed, shippers had been able to resist efforts of the
21 railways to restrict routing in such a way that would
22 have resulted in higher rates. When the class rate
23 equalization order was issued in 1955, the railways
24 regarded this as an opportunity to remove those joint
25 routes and rates which they had inherited within
26 eastern Canada at the time of the amalgamation.
27 However, shipper reaction was such that within a very
28 short time the Canadian railways published a tariff
29 in which the calculation of through rates from
30 stations on one railway to stations on the other



1
2 railway was restored to the basis of the through
3 mileage, and not on the sum of local rates. This
4 tariff is only applicable between specified stations
5 in eastern Canada. The railways have been requested
6 to publish a similar tariff in western Canada. This
7 they have consistently refused to do.

8 MR. MAURO: I would refer the Commission
9 to section 336, sub-section (2) (b) of the Railway
10 Act which reads as follows:

11 "336 (2) The Board may, with a view
12 to implementing the national freight
13 rates policy, require any railway
14 company.....

15 (b) to establish for each article or
16 group of articles for which mileage
17 commodity rates are specified, a
18 uniform scale of mileage commodity rates
19 applicable on its system in Canada, such
20 rates to be expressed in blocks or groups,
21 the blocks or groups to include
22 relatively greater distances for the
23 longer than for the shorter hauls."

24 Q. You will note, Mr. Stechishin,
25 this section which states the national freight rates
26 policy requires each railway company

27 "to establish.....a uniform scale
28 of mileage commodity rates applicable on
29 its system in Canada".
30



(Mauro)

1
2 Would you please tell the Commission if
3 this has been done?

4 MR. STECHISHIN: This has not been done.
5 In those limited instances where commodity mileage
6 rates were equalized, the railways did not establish
7 "a uniform scale of mileage
8 commodity rates applicable on its system
9 in Canada."

10 Rather the railways established identical scales,
11 one applicable within eastern Canada and the other
12 applicable within western Canada, but neither scale
13 applicable between eastern and western Canada. The
14 boundaries of eastern and western Canada for freight
15 rates purposes are at the Canadian Lakehead cities
16 of Port Arthur and Fort William and the divisional point
17 of Armstrong on the northern line of the Canadian
18 National Railways. The territory immediately east
19 of this boundary is of commercial importance to
20 Manitoba, both as a source of raw materials and as a
21 market for Manitoba products. Where the goods move
22 on mileage commodity rates, this boundary becomes a
23 barrier. Goods which originate east of the boundary
24 are charged one rate to the Lakehead and then a
25 completely new rate westward is imposed, as if the
26 goods were unloaded from one car, trucked through a
27 shed, re-loaded into another car and started a
28 completely new journey. This, of course, is not
29 the case.

30 66. Let us turn once again to the "equalized"



scale on scrap iron to illustrate this point.
Winnipeg and district is a major user of scrap iron.
In addition to obtaining this vital raw material
from the farms and mines to the west and north, it is
frequently necessary to draw on the available supply
from an easterly direction. There are a number of
mines in the Geraldton - Beardmore area of Ontario
which are sources of supply. When scrap iron is
shipped from Geraldton to Winnipeg, the rate is
constructed as follows:

Geraldton to Armstrong, Ont.

163.5 miles; mileage rate 33¢

Armstrong to Winnipeg, Man.

391.2 miles; mileage rate 53¢

Total rate 86¢

67. On the other hand, if the shipper in
Geraldton chose to send his scrap iron to say
Hamilton, Ontario, his rate would not be compounded but
would be based on the actual through mileage of 733
miles -- that is from Geraldton to Hamilton -- for
a rate of 84 cents. This illustrates that under the
"equalized" scale, Winnipeg is charged more for a
shipment of 555 miles than an eastern competitor pays
for a haul some 200 miles farther.

68. Because the mileage scale is not a
competitive rate, it cannot be higher than the rate
to a more distant point. The Armstrong to Hamilton
rate is 95 cents reduced by the Bridge Subsidy to



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Trachtenberg, dir.
(Mauro)

76 cents. Since 76 cents is lower than the 84 cents from Geraldton to Hamilton, it would govern as a maximum and the Geraldton shipper would pay only 76 cents for his 733 mile haul. However, this discussion is concerned with the principle of adding the local rate beyond the rate-breaking point and not the effects of the Bridge Subsidy which are dealt with elsewhere.

69. Now let us substitute the mileage scale on vegetables for that of scrap iron. Manitoba is the principal producer of quality peas in the Dominion of Canada. The Board of Transport Commissioners in December of 1958 ordered a revised scale of mileage rates to apply on the movement of vegetables (including peas) within western Canada. At that time the Board authorized the railways to apply the same mileage scale within eastern Canada should they feel a mileage scale advantageous. It is our understanding that the railways are now proposing to institute this same "equalized" scale within the east and the following figures are based on the assumption this has been done -- using Geraldton again as the destination.



Winnipeg to Geraldton

Mileage rate Winnipeg to Armstrong

391.2 miles at 69¢

Mileage rate Armstrong to Geraldton

163.5 miles at 43¢

Through rate 69¢ plus 43¢ - \$ 1.12

But through class rate is only \$ 1.03

Therefore the Winnipeg shipper is denied the benefit of a commodity rate on this important commodity and pays 100 per cent of the class rate. He wouldn't pay the \$1.12, he would only pay the \$1.03, because it cannot be exceeded.

Hamilton to Geraldton

732.8 miles at \$ 1.08

But Hamilton to Armstrong is \$1.22, reduced by Bridge Subsidy to \$1.01, so Hamilton shipper pays only \$1.01 for 733 miles compared with Winnipeg shippers \$1.03 for 555 miles. This rate of \$1.01 represents 85 per cent of the Hamilton - Geraldton class rate of \$1.19.

Q. Whereas in the case of Winnipeg the shipper pays 100 per cent of the class rate?

MR. STECHISHIN: That is right.

70. We have calculated the mileage rates from Winnipeg to a number of eastern destinations -- this is on vegetables we are speaking here -- and in no case have we found that the resulting combination produces a lower rate than the class rate. In



(Mauro)

1
2 other words, the special reduced rates offered under
3 the mileage commodity rate on vegetables are
4 denied to Manitoba shippers into this entire important
5 eastern Canadian market.

6 Q. Does this combination of lake and
7 rail mean a new rate?

8 MR. STECHISHIN: No, it does not.

9 71. Strangely enough traffic unloaded from lake
10 vessels which in fact is unloaded, trucked through a
11 freight shed, and reloaded into a railway car for
12 the balance of its journey westward, is not charged
13 a completely new rate. The balance of the through
14 rate on lake and rail traffic is determined in exactly
15 the same manner as if the traffic had arrived on a
16 through train and had been dispatched with no further
17 effort than a change in train crew.

18 THE CHAIRMAN: Mr. Mauro, before leaving
19 this section, referring again to F, you mean to say
20 that in shipping from Hamilto to Winnipeg it matters
21 not which line handles it, the rates are the same?

22 MR. MAURO: That is right. There could
23 have been fifteen interchanges, but the rate in
24 Winnipeg would be the same regardless of which line
25 handled it. There could be nine interchanges,
26 apparently, without an increase in the rate.

27 Q. Are there any other aspects of this
28 problem of inter-line rates, Mr. Stechishin, that
29 you wish to discuss at this time?

30 MR. STECHISHIN: Yes, there is. I



1
2 mentioned earlier the impact of the bridge subsidy,
3 and now I would like to add a little about that
4 bridge subsidy on inter-line rates.

5 72. Another aspect of this problem which should
6 be considered in the context of inter-line rates and
7 the inequities that flow from present policies
8 concerns the practices of the Canadian railways, as
9 a result of the so-called Bridge Subsidy. The report
10 of the Royal Commission dated February 9, 1951,
11 contains a chapter (11) entitled "The Rail Link Between
12 East and West", which states as follows:

13 "It is the existence of this necessary
14 link between Canada's two vast areas that
15 must be recognized. It is called for,
16 not only by the requirements of the exchange
17 of goods for commercial purposes, but also
18 by those of our national defence structure.
19 The problem presented is that of maintaining
20 this link so long at least as it does not
21 provide sufficient revenue for its own
22 maintenance. This problem concerns the
23 whole country and not only its western
24 portion, and the responsibility for its
25 ~~solution~~ should be assumed by the nation
26 as, for instance, in the case of the
27 maintenance of our canal system.

28 It would appear suitable, in these
29 circumstances, to provide that the cost
30 of maintaining that portion of our



transcontinental railway system which serves as a line or bridge between east and west be charged upon the general revenue of the country. This arrangement would reduce the expense of the railways by relieving them of a liability for which at present they have to recoup themselves by means of relatively high freight charges on the through traffic passing over this bridge between the two areas." (Report of the Royal Commission on Transportation, 1951, page 253).

73. At page 254 of the report the following appears:

"The trackage between Sudbury and Fort William on the main line of the Canadian Pacific Railway Company constitutes that company's 'bridge'. A corresponding extent of trackage on the Canadian National Railways' 'bridge' should also be provided for. If this proposal is adopted a number of details concerning its application will have to be worked out between the government authorities and the railways. A rough estimate of the cost of maintaining this line between east and west makes it appear that the liability taken over by the Treasury will be approximately \$7,000,000 annually.



1
2 It is expected that the assistance
3 herein provided will be particularly
4 effective as a measure of relief in the
5 case of charges on westbound traffic passing
6 over this bridge. The Crow's Nest Pass rates
7 structure provides to a considerable extent
8 although, of course not altogether, for the
9 requirements of traffic eastbound. (Ibid).

10 74. Pursuant to these recommendations, an
11 amendment to the Railway Act was passed in 1951 which
12 appears as Section 468 of the Act.

13 75. The said section reads as follows:

14 "468. (1).

15 Subject to the provisions of this
16 section, the Minister of Finance may, when
17 authorized by the Governor-in-Council, pay
18 out of the Consolidated Revenue fund

19 (a) to the Canadian Pacific Railway Company

20 an amount equal to the annual cost of
21 maintaining the trackage between

22 Sudbury and Fort William on its
23 transcontinental line of railway, and

24 (b) to the Canadian National Railway

25 Company an amount equal to the annual
26 cost of maintaining trackage

27 corresponding in extent to the trackage
28 mentioned in paragraph (a) between

29 Capreol and Fort William and between

30 Cochrane and Armstrong on the

transcontinental lines of Canadian



National Railways.

- (2) The Board of Transport Commissioners for Canada shall determine the annual cost of maintaining the trackage for which payment may be made under this section and shall fix the extent of such trackage in respect of each company.
- (3) The amounts paid under sub-section (1) shall not in any year exceed seven million dollars in the aggregate,
- (4) When the cost of maintenance of the trackage on the lines of railway specified in sub-section (1) exceeds in any year the sum of seven million dollars, the payments authorized by sub-section (1) shall be apportioned between the companies according to the amounts expended by each company on the maintenance of its trackage.
- (5) The amounts paid under sub-section (1) shall be applied to a reduction in the relative level of rates applying on freight traffic moving in both directions between points in eastern Canada and points in western Canada over the trackage to which the payment relates, in such manner as the Board may allow or direct."



(Mauro)

1
2 76. The chief benefit intended by the 1951
3 amendment to the Railway Act was the lowering of rates
4 between eastern and western Canada, particularly on
5 westbound traffic as set out in the recommendation
6 of the Turgeon Commission. The Board of Transport
7 Commissioners in administering Section 468 did so,
8 however, in a manner which departed somewhat from the
9 benefits intended by the Turgeon Commission and by
10 Parliament. The Board prescribed that the reduction
11 would be only 50 per cent based on the trackage,
12 expressed in cents per 100 pounds, and 50 per cent
13 on the total rate from point of origin to final
14 destination, expressed as a percentage. The cents
15 per hundred pounds portion reflects the elimination
16 of the burden of that portion of the trackage, as
17 recommended by the Turgeon Commission. The
18 percentage of the through rate has no relation to the
19 trackage which was to be lifted from the rate structure
20 and is merely an overall rate reduction. Thus,
21 while the Turgeon Commission clearly indicated that
22 the cost of maintaining this "trackage" was to be
23 lifted from the shippers, the method of application
24 prescribed by the Board emphasizes the reduction in
25 rates rather than the actual trackage.

26 77. Prior to the implementation of the Bridge
27 Subsidy there were over 100 routes between eastern
28 Canada and western Canada via the United States --
29 and that refers to Exhibit 153-F. One of the
30 effects of the Bridge Subsidy is that the reduction in



1
2 rates has had the effect of eliminating United States
3 railroads from participating in east-west Canadian
4 traffic, since they do not participate in the Bridge
5 Subsidy. As a result, the rail transport charges
6 paid by Canadian shippers became higher than intended.
7 78. The subsidy, for all practical purposes,
8 eliminated what had been a highly competitive situation
9 for east-west traffic. As a result, the now captive
10 traffic was left to the remaining carriers, the C.P.R.
11 and the C.N.R. The Canadian railways did not go so
12 far as to charge combination rates when the point of
13 origin was on one railway and the destination was on
14 the other, however, local switching charges are
15 assessed if one or both of the points are served by
16 both railways and the shipment moves by the railway
17 other than that actually placing the car for loading or
18 unloading. Thus, if the shipper is located in
19 eastern Canada on the Canadian National Railways,
20 and the consignee in Winnipeg on the Canadian Pacific
21 Railway, switching cannot be avoided at either origin
22 or destination. On the other hand, if the shipment
23 is consigned to a local siding on the Canadian National
24 Railways in Manitoba, no switching is assessed. That
25 is, if it originates on the C.N.R. in the east.
26 Many Winnipeg industries in good faith had located
27 on the tracks of the Midland Railway jointly owned by
28 the Northern Pacific and Great Northern Railways.
29 For many years these industries had paid no switching
30 charges on traffic to or from eastern Canada. They



1
2 now find, however, that despite the fact that there
3 has been no change in the physical handling of the
4 cars, switching charges are unavoidable, regardless
5 of whether the movement from eastern Canada is by
6 Canadian Pacific or by Canadian National. In
7 consequence, the benefit to the shipper from the
8 Bridge Subsidy has been reduced by the amount of the
9 switching charge which had not been assessed prior to
10 institution of the Subsidy. By employing this device
11 the Canadian railways have lessened for certain
12 shippers the benefits intended by Parliament and paid
13 for by the National Treasury.

14 Q. Do you have any recommendation in
15 regard to this matter of the inequities in inter-line
16 rates, Mr. Stechishin?

17 MR. STECHISHIN:

18 79. The government of Manitoba recommends with
19 respect to inter-line rates as follows:

20 80. Where freight rates are based on mileage
21 they should be based between all stations in Canada
22 on the shortest through rail mileage regardless of
23 whether or not it is necessary in the course of the
24 movement to transfer the goods from one railway to
25 another. This recommendation is not an attempt to
26 preclude the use of station "groups" or "key points".
27 The railways should continue to be allowed, in fact
28 they should be encouraged, to name one central point
29 in an economic area as the rate basing point and
30 apply that rate to surrounding stations disregarding



1 minor differences in mileage. It is our considered
2 opinion that if this recommendation is implemented,
3 it would have the effect of firstly, giving equality
4 of treatment between eastern and western Canada and
5 secondly, equality of treatment between those stations
6 which are located on the lines of a single railway
7 and those stations which have had the good fortune
8 to be located on the lines of two or more railways.
9

10 THE CHAIRMAN: And you say there is
11 different treatment between east and west?

12 MR. MAURO: We do, sir. I think I recall
13 someone in the Maritimes mentioned something about
14 these joint through rates.

15 THE CHAIRMAN: And you say that is an
16 inequity?

17 MR. MAURO: We say it is inequitable
18 treatment.

19 COMMISSIONER BALCH: Many Winnipeg
20 industries in good faith located on tracks on the
21 Midland Railway and Great Northern, and later that
22 was changed because the Canadian National and
23 Canadian Pacific handled it. Why was that?

24 MR. STECHISHIN: The Midland Railway is
25 jointly owned by the Canadian Pacific and the Great
26 Northern.

27 COMMISSIONER BALCH: Are there not quite
28 a number of industries in Winnipeg located on the
29 Midland tracks?

30 MR. STECHISHIN: They cannot be got at
by them and they are forced to pay these rates.



1
2 COMMISSIONER ANSCOMB: Before you leave
3 that, the second line on page 36: "Disregarding minor
4 differences in mileage": how much is "minor"?

5 MR. STECHISHIN: Depending on the length of
6 haul. In Canada they will disregard up to ten, fifteen
7 and even twenty miles, in some cases.

8 COMMISSIONER ANSCOMB: That is all?

9 MR. STECHISHIN: In the United States the
10 rate groups are roughly 40-odd miles in diameter, which
11 would be about 20 miles from the centre points. It
12 varies in individual cases.

13 COMMISSIONER ANSCOMB: Thank you.

14 MR. MAURO: Q. What is the next matter you
15 wish to deal with?

16 MR. STECHISHIN: Inequities Under the
17 Long and Short Haul Clause.

18 31 Sections 317 to 324 inclusive of the Railway
19 Act carry the general heading of "Equality as to
20 Tolls and Facilities". Section 317, subsection (5),
21 commonly referred to as the long and short haul clause,
22 reads as follows:

23 "317(5) The Board shall not approve or allow
24 any toll, that for the like description
25 of goods, or for passengers carried
26 under substantially similar circumstances
27 and conditions in the same direction over
28 the same line or route is greater for a
29 shorter than for a longer distance,
30 within which such shorter distance



1
2 is included, unless the Board is satis-
3 fied that, owing to competition, it is
4 expedient to allow such toll."

5 It is the application of this section that we wish
6 to discuss.

7 82. The railways, as any well-operated business,
8 must meet competition where it exists. If they
9 should allow competition on some traffic to unduly
10 depress rates on other traffic where the competition
11 is not as pervasive, they would be failing to protect
12 the legitimate interests of their investors. In
13 other words, if the railways, due to competition,
14 occasioned by the existence of a pipeline, reduce
15 the rate on the shipment of oil, between Regina and
16 Winnipeg, they would not be acting in the best
17 interests of their investors if they reduced the rate
18 on another commodity such as bricks, or on another
19 movement of oil, where the same competitive factors
20 did not exist. The legislative provision, quoted
21 above, was made by Parliament to protect these
22 legitimate interests of the railway investor. The
23 long and short haul clause provides, briefly, that
24 rates to or from an intermediate point may not be
25 greater than the rate to or from a more distant point
26 unless the rate to or from the more distant point is
27 reduced to meet competition.

28 83. When two carriers follow closely parallel
29 routes, the competition is pervasive at all stations
30 along the route and the long and short haul clause is



not applicable. The following table will better illustrate this point.

Q. I ask that the table be taken in: would you comment on that?

MR. STECHISHIN: What we have done here is to take the lines of railway from Winnipeg west showing the common points of the C.P.R. and C.N.R. where we could, the mileages from Winnipeg, the mileage block and the actual rates for that mileage block.

Q. Just before you go any further, column 1 on the lefthand side is the stations going west from Winnipeg to Basque on the first page?

MR. STECHISHIN: That is correct.

Q. And we have Winnipeg, Tucker, Portage la Prairie, and they are stations which are on both the C.N.R. and C.P.R.?

MR. STECHISHIN: Portage la Prairie and Winnipeg, yes, but Tucker is on the C.P.R. only.

Q. Portage la Prairie is in the mileage block of 51 to 55?

MR. STECHISHIN: That is correct. It is 55 miles from Winnipeg on the Canadian National and it is in mileage block 51 to 55 for a rate of 102. It is 56 miles on the C.P.R., but it still takes the 51 to 55 mileage block for competitive reasons, because the C.P.R. cannot charge more to Portage la Prairie than the C.N.R. from Winnipeg, and it also gets the rate of 102. But because the reduction in rate for competitive reasons is only one mileage block, as it were, it does not put



1
2 Portage la Prairie at a lower rate than Tucker, so that
3 there is no dip in the rate structure. It is progres-
4 sive there.

5 Q. Tucker was 53?

6 MR. STECHISHIN: Fifty-three actual miles,
7 and therefore is in the 51 to 55 mileage block. Portage
8 la Prairie was reduced to that block in order to remain
9 competitive with Portage la Prairie on the Canadian
10 National Railway.

11 Q. Would you go on?

12 MR. STECHISHIN: Brandon Junction, being the
13 station immediately prior to Carberry on the Canadian
14 National, is in the same rate block by virtue of its
15 actual mileage as Carberry, and no rate adjustment
16 was necessary there. The mileage to Carberry on the
17 Canadian National is 111. A similar situation exists
18 at Brandon and Leon, the station immediately prior,
19 and we don't find any exceptions to the long and short
20 haul clause until we get to Calgary on the Canadian
21 National. That is about halfway down the page.
22 Calgary on the Canadian Pacific is 823 miles, putting
23 it in the 801 to 825 mileage block.

24 Q. And that 823 miles is shown in the
25 right hand column?

26 MR. STECHISHIN: Yes, the extreme right
27 hand column.

28 Q. And that is the mileage on the C.P.R.?

29 MR. STECHISHIN: That is correct. On the
30 Canadian National Railways Calgary is 867 miles, which



1
2 would put it in the 851 to 875 mileage block. How-
3 ever, for competitive reasons, it is put in the
4 801 to 825 mileage block, the same as the C.P.R. and
5 takes a rate of 449. Here we see the four stations
6 immediately east of Calgary on the Canadian National
7 have a higher rate than Calgary -- 460 and 470 as
8 opposed to 449.

9 Q. And the reason for that is that Barlow,
10 Janet, Norfolk and Dunshalt, which are shorter dis-
11 tances from Winnipeg, have higher rates than Calgary --
12 and the reason for that is that they are not competitive
13 stations?

14 MR. STECHISHIN: That is correct.

15 THE CHAIRMAN: But they are in their proper
16 blocks?

17 MR. MAURO: Oh, yes, that is correct.

18 MR. STECHISHIN: Then you find a similar
19 situation, again on the Canadian National Railway, in
20 the stations immediately east of Kamloops and Kamloops
21 Junction.. Kamloops on the Canadian National, at
22 1301 miles has its mileage reduced for rate making
23 purposes by about 100 miles, putting it in the 1201 to
24 1225 mileage group making it competitive with Kamloops
25 on the C.P.R. at 1214. Again we have a situation where
26 intermediate points pay a somewhat higher rate than the
27 more distant points.

28 COMMISSIONER GOBEIL: In the Calgary block,
29 what about Baintree: why is it the same as Calgary?

30 MR. STECHISHIN: It is 824 miles, and that



1
2 puts it in the 801 to 825 block which is the same
3 block that Calgary occupies on the C.P.R. So,
4 Baintree does get a rate of 449, but Dunshalt, being
5 three miles further, is in the next block and therefore
6 has to take a higher rate.

7 THE CHAIRMAN: This is another example of
8 competition?

9 MR. MAURO: Yes, this is to illustrate the
10 long and short haul operation on parallel routes.

11 THE CHAIRMAN: The one and one-third rule?

12 MR. STECHISHIN: Actually, it is not the
13 one and one-third rule.

14 THE CHAIRMAN: It is the same principle.

15 MR. STECHISHIN: No, none of them are more
16 than one-third higher than the more distant points,
17 so there is no need to have a ceiling on them.

18 It is the same thing repeated at Walhachin,
19 Ashcroft, Spence's Bridge and, of course, Vancouver.
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TABLE 6

ACTUAL MILES, RATE MAKING MILEAGE BLOCKS
AND RATES FROM WINNIPEG

Station	Canadian National			Canadian Pacific			
	Miles	Mileage Block	Rate	Rate	Rate Mile Block	Miles	
Winnipeg, Man.	0.0						0.0
Tucker	-	-	-	102	51-55		53
Portage la Prairie	55	51-65	102	102	*51-55		56
Brandon Jct	107	101-125	144	-	-		-
Carberry	111	101-125	144	144	101-125		106
Leon	130	126-150	156	-	-		-
Brandon	134	126-150	156	156	126-150		134
Scarth	181	176-200	180	-	-		-
Maples	186	176-200	180	-	-		-
Virden	190	176-200	180	180	176-200		181
Kearney, Sask.	-	-	-	255	351-375		353
Regina	357	351-375	255	255	351-375		357
Pasqua	-	-	-	266	376-400		392
Moose Jaw	398	376-400	266	266	376-400		398
Baintree, Alta	824	801-825	449	-	-		-
Dunshalt	827	826-850	460	-	-		-
Norfolk	849	826-850	460	-	-		-
Janet	857	851-875	471	-	-		-
Barlow	861	851-875	471	-	-		-
Calgary	867	*801-825	*448	449	801-825		823
Birch Island, B.C.	1220	1201-1225	622	-	-		-
Cearwater	1226	1226-1250	633	-	-		-
Chu Chua	1249	1226-1250	633	-	-		-
Chinook Cove	1257	1251-1275	644	-	-		-
McLure	1275	1251-1275	644	-	-		-
Vinsula	1283	1276-1300	654	-	-		-
Kamloops Jct	1298	*1201-1225	*622	-	-		-
Kamloops	1301	*1201-1225	*622	622	1201-1225		1214
Halston	1299	*1201-1225	*622	-	-		-
Franquille	1306	1301-1325	665	-	-		-
Copper Creek	1319	1301-1325	665	-	-		-
Savona	1324	*1226-1250	*633	633	1226-1250		1240
Walhachin	1330	*1226-1250	*633	633	1226-1250		1246
Anglesey	1234	*1226-1250	*633	-	-		-
McAbee	1339	1326-1350	676	-	-		-
Ashcroft	1347	*1251-1275	*644	644	1251-1275		1262

ACTUAL MILES, RATE MAKING MILEAGE BLOCKS
AND RATES FROM WINNIPEG

Station	Canadian National			Canadian Pacific		
	Miles	Mileage	Rate	Rate	Rate Mile	Miles
Asquith	1356	*1251-1275	*644	644	1251-1275	1269
Asquith	1358	*1251-1275	*644	-	-	-
Asquith	1366	1351-1375	687	-	-	-
Asquith's Bridge	1373	*1276-1300	*654	654	1276-1300	1287
Asquith	1377	1376-1400	698	-	-	-
Asquith	1389	1376-1400	698	-	-	-
Asquith	1396	*1301-1325	*665	665	1301-1325	1309
Asquith	1464	1376-1400	*698	698	1376-1400	1380
Asquith	1468	1451-1475	730	-	-	-
Asquith View	1478	1476-1500	741	-	-	-
Asquith	1500	1476-1500	741	-	-	-
Asquith	1507	1501-1525	762	-	-	-
Asquith	1511	*1426-1450	*719	719	1426-1450	1426
Asquith Lehman	1516	1501-1550	762	-	-	-
Asquith Langley	1527	1501-1550	762	-	-	-
Asquith	1541	1501-1550	762	-	-	-
Asquith Westminster	1544	*1451-1475	*730	730	1451-1475	1457
Asquith	1546	*1451-1475	*730	-	-	-
Asquith Creek	1553	1451-1475	*730	-	-	-
Asquith	1555	*1451-1475	*730	730	1451-1475	1465

* denotes competitive.

MR. STECHISHIN:

84. On the other hand, when one carrier has a direct route between two points and another carrier, starting from the same point of origin, has a longer, more devious route to the same destination, problems do occur. Assuming that both railways use the same mileage scale, the first railway would have a lower rate to the final destination than the second because of the shorter mileage. The second railway will obtain no business to that point of destination unless it is



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1
2 willing to ignore its own mileage and reduce its rate
3 to that of its competitor. However, an intermediate point
4 on the second railway now finds that its rates are
5 higher than on traffic which moves beyond. This is
6 illustrated in the following table.
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2 MR. MAURO: Q. Just a moment: we have an
3 illustration of this, Mr. Chairman, and I would ask
4 it be marked as Exhibit 153H.

5 ---EXHIBIT NO. 153H: Diagram II-6.
6

7
8 Q. Mr. Stechishin, would you now describe
9 that diagram.

10 MR. STECHISHIN: What I have done here is
11 take the stations intermediate to Calgary and Edmonton,
12 and following the Canadian National line north of
13 Calgary I have compared the Canadian National mileage
14 via Edmonton to that point and compared it with the sum
15 of the mileages of the C.P.R. to Calgary plus the
16 Canadian National mileage from Calgary to whatever
17 point is mentioned.

18 Q. Referring to the diagram, I notice
19 up the vertical plane on the left hand are various
20 numbers: what do they represent?

21 MR. STECHISHIN: They represent the mileages.

22 Q. From 600 to 1000?

23 MR. STECHISHIN: Yes, that is right.

24 Q. Then there is a dark line starting at
25 approximately 641 or 642 on the lower left, and in
26 various steps moving up the page: what does that dark
27 line represent?

28 MR. STECHISHIN: That dark line represents
29 the shortest mileage by using a junction between the
30 two railways. It would be either the C.P.R. to



1
2 Calgary and then the C.N.R. north of Calgary, or the
3 C.N.R. to Edmonton and the C.N.R. from Edmonton south.

4 Q. For illustrative purposes let us take
5 the first movement starting at 642. Is that 642
6 miles to Calgary?

7 MR. STECHISHIN: Yes, in this case via the
8 C.P.R.

9 Q. That is the most direct route?

10 MR. STECHISHIN: Yes, the direct route.

11 Q. Then you have a shaded series of lines
12 that seem to go up and down across the page; what do
13 they represent?

14 MR. STECHISHIN: The shaded portion of the
15 diagram illustrates the mileage on which the rate to
16 each respective station is based.

17 Q. So that one is the most direct mileage
18 and the other is the rate making mileage?

19 MR. STECHISHIN: That is correct, and the
20 line at the top is the line of the single-line railway.
21 For example, the 642, the dark line at the bottom is
22 the C.P.R. to Calgary, and the dot-and-dash line
23 at the top is the C.N.R. mileage to Calgary.

24 Q. So, the C.N.R. mileage is just under
25 one thousand -- 990?

26 MR. STECHISHIN: That is right.

27 Q. And the C.P.R. is 642?

28 MR. STECHISHIN: That is correct.

29 Q. Would you refer to one or two of the
30 stations to point up the difference between direct



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mileage and rate making mileage? These are between
Vancouver and Calgary?

MR. STECHISHIN: Yes, and Edmonton as the
case may be.

Table 7

	<u>Single Line Mileage</u>	<u>Joint Line Mileage</u>		
	<u>C.N. Mileage</u>	<u>C.P. Cal. C.N. Byd.</u>	<u>Rate (1) Mileage</u>	<u>Rate Cents per 100 lbs.</u>
C.P. Vancouver to Calgary		641.5	.634	374
C.N. Vancouver to Calgary	993.7		634	374
C.N. Calgary to Hubalta	7.3	7.3		
Cancouver to Hubalta	986.4	648.8	975	514
C.N. Hubalta to Kathryn	16.8	16.8		
Vancouver to Kathryn	969.6	665.6	958	514
C.N. Kathryn to Irricana	9.0	9.0		
Vancouver to Irrican	960.6	674.6 (2)	696	395
C.N. Irricana to Beiseker	5.5	5.5		
Vancouver to Beisker	955.1	680.1 (3)	691	395
C.N. Beisker to Bircham	7.0	7.0		
Vancouver to Bircham	948.1	687.1 (4)	684	395
C.N. Bircham to Grainger	5.6	5.6		
Vancouver to Grainger	942.5	692.7 (5)	678	395
C.N. Grainger to Swalwel	6.2	6.2		
Vancouver to Swalwel	936.3	698.9	925	492
C.N. Swalwel to Three Hills	13.0	13.0		
Vancouver to "	923.3	711.9	911	492
C.N. Three Hills to Elnora	22.4	22.4		
Vancouver to Elnora	900.9	734.3	890	482
C.N. Elnora to Heatburg	26.5	26.5		
Vancouver to Heatburg	874.4	760.8	863	471
C.N. Alix to Mirror	5.9	5.9		
Vancouver to Mirror	863.1	772.1	852	471
C.N. Mirror to Bashaw	10.8	10.8		
Vancouver to Bashaw	852.3	782.9	841	460
C.N. Bashaw to Duhamel	24.5	24.5		
Vancouver to Duhamel	827.8	807.4	817	449
C.N. Duhamel to Battle	6.0	5.7		
Vancouver to Battle	821.8	813.4	811	449
C.N. Battle to Camrose	5.7	5.7		
Vancouver to Camrose	816.1	<u>819.1</u>	805	449

Table 7 (cont'd)

	<u>Single Line Mileage</u>	<u>Joint Line Mileage</u>			
	<u>C.P. Mileage</u>	<u>C.N. Edmonton C.P. Byd</u>	<u>Rate Mileage</u>	<u>Rate Cents per 100 lbs.</u>	
P. Vancouver to Camrose	818.8	432.4 (7)	803	449	
P. Camrose to Wetaskiwin	25.3	25.3			
Vancouver to "	793.5	807.1	786	438	
P. Wetaskiwin to Millet	9.7	9.7			
Vancouver to Millet	803.2	797.4	796	438	
P. Millet to Kavanagh	6.2	6.2			
Vancouver to Kavanagh	809.4	791.2	802	449	
P. Kavanagh to Leduc	6.1	6.1			
Vancouver to Leduc	815.5	785.1	808	449	
P. Leduc to Ellerslie	11.6	11.6			
Vancouver to Ellerslie	827.1	773.5	819	449	
P. Ellerslie to South Ed.	6.3	6.3			
Vancouver to South Ed.	833.4	767.2	752	428	
P. South Edmonton to Ed.	2.2	2.2			
Vancouver to Edmonton	835.6	765.0	752	428	
N. Vancouver to Edmonton		765.0	754	428	

- (1) Rates based on mileage to or from New Westminster.
- (2) Competitive with Irricana on the C.P. 688.4 miles from Vancouver.
- (3) Competitive with Beiseker on the C.P. 693.7 miles from Vancouver.
- (4) Competitive with Acme on the C.P. 702.0 miles from Vancouver.
- (5) Competitive with Buoyant on the C.P. 706.6 miles from Vancouver.
- (6) Competitive with Alix on the C.P. 781.5 miles from Vancouver.
- (7) Competitive with Camrose on the C.N. 816.1 miles from Vancouver.



1
2 85. Diagram II-6 will further illustrate
3 these rate irregularities.

4 86. The above table shows the stations,
5 mileages, and rates between Vancouver on the one
6 hand, and points intermediate to Calgary and Edmonton
7 on the other.

8 87. The first item of interest is that none
9 of the rates between Vancouver and the points shown
10 is based on the actual mileage to or from Vancouver.
11 At other metropolitan centers the railways have
12 based rate on mileage to the principal station in
13 the economic group and then by tariff rule prescribed
14 that all other stations in the economic group take
15 the same rate whether higher or lower if based on each
16 actual mileage. This is permitted under Section
17 332(b) of the Railway Act.

18 "332. Class rate tariffs

19 "(a) shall specify class rates on a
20 mileage basis for all distances
21 covered by the company's railway, and
22 such distances shall be expressed in
23 blocks or groups and the blocks or
24 groups shall include relatively greater
25 distances for the longer than for the
26 shorter hauls, and

27 "(b) may, in addition, specify class
28 rates between specified points on the
29 railway and when rates are established
30 in groups the rates to or from



individual points in the groups may
be higher or lower than the rates
specified under paragraph (a).

1951 (2nd Sess.), c. 22, s. 7."

88. Starting at Calgary we note that the
C.N.R. mileage is 993.7 or 352.2 miles greater than
the C.P. mileage of 641.5. Both railways base their
rate on the C.P.R. mileage to New Westminster of
634 miles or \$3.74.

Q. Therefore, the actual mileage on the
C.N.R. is 990, but for rate making purposes Calgary
gets a mileage of 634?

MR. STECHISHIN: That is correct.

89. Moving 7.3 miles north on the C.N. Three
Hills Subdivision we come to the station Hubalta.
The C.P.R. does not quote a rate to Hubalta since it
is not on their line, but the C.N.R. who would carry
the traffic 7.3 miles less than to Calgary now quote
\$5.14 or \$1.40 more.

You will see the shaded portion takes a
tremendous leap from 634 to 970-odd.

Q. So, while Calgary was 900-odd miles
and has a 634 mileage rate, Hubalta, 7 miles closer,
takes a mileage rate reflecting its actual mileage,
967 miles?

MR. STECHISHIN: Yes.

THE CHAIRMAN: But again, in the proper
block?

MR. MAURO: Oh, yes. What this is



1
2 exemplifying is the variation between actual mileage
3 and rate-making mileage due to competitive factors.

4 MR. SINCLAIR: Is there anybody at
5 Hubalta?

6 COMMISSIONER GOBEIL: In practice, is there
7 any traffic?

8 MR. STECHISHIN: I would presume there is,
9 because the railways quote a rate to Hubalta. The
10 railways have told us they don't quote rates which are
11 paper rates, and I presume there is somebody there
12 because the rate is in the tariff. There certainly
13 is a railroad station there.

14 Although this is more than one-third more
15 than the rate to the more distant point, Calgary, the
16 "hold-down" under the One and One-Third Rule is in-
17 applicable since the rule is only applicable to
18 transcontinental traffic.

19 90. Kathryn, 16.8 miles north of Hubalta, has the
20 same rates. Nine miles north of Kathryn we come to
21 Irricana which is also served by the C.P.R. Although
22 in the same rate block as Kathryn (951-975), the
23 rate, because of competition, drops from \$5.14 to \$3.95.

24 There you see the tremendous drop in the
25 shaded portion because of the competition which exists
26 at Irricana but not at Kathryn and Hubalta.

27 Q. We see in the step-downs from the 1000-
28 mile area, Irricana just north of Kathryn, yet its
29 rate drops down to the 690-mile level?

30 MR. STECHISHIN: That is correct.



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1
2 Q. Although its actual mileage is in the
3 range of 960 miles?

4 MR. STECHISHIN: Via Canadian National, that
5 is right.

6 The next station Beiseker is in the same
7 category.
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1 THE CHAIRMAN: Order, please.

2 MR. STECHISHIN:

3 91. Beyond Beiseker are Bircham and Grainger.
4 These stations are shown as competitive with C.P.R.
5 stations Acme and Buoyant, respectively and take the
6 same rate of \$3.95. 6.2 miles beyond Grainger we
7 come to Swalwel which does not benefit from competition
8 and note again that for the 6.2 miles of transportation
9 saved, the shipper is assessed an additional 97 cents
10 or a rate of ~~\$4.92~~. Three Hills, although in a
11 lower rate block from Vancouver (Three Hills 901-925,
12 Swalwel 926-950), is in the same rate block from New
13 Westminster, and therefore does not gain any rate
14 advantage.

15 92. Elnora is one rate group less at \$4.82 and
16 Heatburg another with a rate of \$4.71. Aliz is 5.4
17 miles from Heatburg and 5.9 miles from Mirror, but
18 because it is also on the C.P.R. its rates are only
19 \$4.28 or 43 cents lower than the station 6 miles
20 further from Vancouver (Heatburg) and the station 6
21 miles closer to Vancouver (Mirror).

22 93. Bashaw is 10.8 miles closer to Vancouver
23 than Mirror and is in the same rate block, 851 - 875,
24 but because it happens to fall in a lower rate block
25 from New Westminster 826 - 850 vs. 851 - 875, it takes
26 a lower rate of \$4.60. Duhamel and Battle are in
27 the next lower rate block from New Westminster and
28 take a lower rate of \$4.49.

29 94. Camrose is competitive with the C.P.R. but
30



1
2 the mileage over the C.N. is slightly less and it
3 would take the same rate over each railway regardless
4 of competition. The rates on all non-competitive
5 stations between Calgary and Camrose would have been
6 less if they had been based on the short through
7 mileage of the C.P.R. to Calgary, plus the C.N.R.
8 beyond. This latter is the practice followed in
9 establishing class rates within the United States.

10 95. Following the C.P.R. line from Camrose
11 to Edmonton, we find that Wetaskiwin and Millet are
12 closer to Vancouver via Calgary and so enjoy a lower
13 rate than Camrose.

14 96. Kavanagh, Leduc and Ellerslie are closer
15 to Vancouver if the rail mileage is measured via the
16 C.P.R. to Edmonton and then C.N.R. to Vancouver.
17 However, the mileage is measured over the C.P.R.
18 only and they are forced to pay higher rates.
19 Edmonton itself gains the benefit of C.N.R. competition
20 so that it enjoys a lower rate than intermediate
21 points on the C.P.R.

22 Q. Mr. Stechishin, the purport of this
23 diagram and your evidence on it is to illustrate the
24 very clear demarcation between actual mileages and
25 rate making mileages brought about due to competitive
26 forces between the two rail lines; is that correct?

27 MR. STECHISHIN: That is correct.

28 Q. Now, in one or two of those cases
29 the rate was even more than one-third higher to the
30 closer station than it was to the more distant, but



1
2 the one and one-third rule did not apply because the
3 one and one-third rule is applicable only to
4 transcontinental traffic?

5 MR. STECHISHIN: That is correct.

6 Q. Would you please go on?

7 MR. STECHISHIN:

8 97. The Railway Act specifically permits this
9 anomaly because of the competitive forces that result
10 in the lower rate to the more distant point but which
11 do not exist with respect to the intermediate point.

12 98. Where different modes of transportation
13 exist each being restricted to its particular field
14 of operation, for example, water carriers as opposed
15 to rail or truck carriers, situations where the
16 exceptions to the long and short haul clause may be
17 justified occur more frequently and to a greater degree.
18 These exceptions to the long and short haul clause
19 are particularly prevalent in the Canadian freight
20 rate structure in trans-continental rates.

21 MR. MAURO: Mr. Chairman, Premier Roblin
22 in presenting the submission on behalf of the province
23 of Manitoba to this Commission at its hearings in
24 Winnipeg dealt in particular with anomalies arising
25 from exceptions to the long and short haul clause.
26 In this submission we shall deal both with this
27 specific exception and with the general problem
28 confronting this Commission in dealing with this
29 aspect of railway transportation in Canada.

30 Q. Mr. Stechishin, what are the reasons



1
2 for the exceptions to the long and short haul clause
3 vis-a-vis transcontinental rates?

4 MR. STECHISHIN:

5 99. The numerous exceptions to the long and
6 short haul clause which exist in the transcontinental
7 rates are due to inter-coastal competition via the
8 Panama Canal, competition which is not felt at
9 intermediate points. United States railroads have
10 reduced their transcontinental rates to meet Panama
11 Canal competition, which is, in fact more compelling
12 between the east and west coasts of the United States
13 than between the east and west coasts of Canada.
14 The low rates on United States railroads have had a
15 depressing effect on Canadian transcontinental rail
16 rates. Unless the Canadian railways lowered their
17 rates to the same level as the existing transcontinental
18 rates in the United States, the Canadian shipper would
19 merely ship his goods into the United States, taking
20 advantage of the lower United States rates, and then
21 move the commodities back into Canada. In other
22 words, while the actual movement of commodities from
23 Montreal to Vancouver via the Panama Canal may be
24 negligible, the effect of the very real competitive
25 situation in the United States, brought about by the
26 existence of the Panama Canal and the resultant
27 reduction in United States trans-continental rail
28 rates, compels Canadian railways to reduce their rates
29 if they wish to participate in the traffic.

30 100. Another factor, and one of growing



1
2 importance, is the incidence of foreign competition
3 at seacoast ports. The increment in the ocean rate
4 from Europe to Vancouver as compared with the rate
5 from Europe to Montreal is only a small fraction of
6 the normal Montreal-Vancouver rate by rail.

7 101. Needless to say the railways have not felt
8 compelled by equity or law to grant a rate to an
9 intermediate point comparable to the transcontinental
10 rate because, in their opinion, the same pervasive
11 forces did not exist for instituting the lower rate
12 to the intermediate point. Shippers and receivers
13 located at intermediate points, however, have never
14 been happy with the exception permitted under the long
15 and short haul clause. Many shippers have been
16 unable to reconcile themselves to the apparent
17 discrimination of being assessed higher rates on their
18 traffic while at the same time watching identical
19 traffic go by their very door, travelling as much as
20 an additional one thousand miles in some cases, at
21 substantially lower rates.

22 102. The railways have argued that the true test
23 as to whether or not a particular practice represents
24 unjust discrimination lies in determining whether the
25 complainant will benefit by the removal of the
26 particular rate claimed to be unjustly discriminatory.
27 The railway position has not been refuted nor has it
28 been accepted by all shippers.

29 103. The Turgeon Commission attempted to reach a
30 compromise between the position of the railways and



1
2 that of the shippers.

3 MR. MAURO: At page 100 of the Commission's
4 report, Mr. Chairman, we find the following with
5 respect to transcontinental rates:

6 " On the main issue, it seems reasonable
7 to conclude that when the railways give
8 the trader and the consumer at the Pacific
9 coast the benefit of fast railway service
10 at rates that are very little more than
11 ocean rates and thus provide them with
12 two alternate services at almost the same
13 price, the consumers in Alberta and other
14 intermediate provinces are entitled to share
15 in an equitable degree in the beneficial
16 condition thus created by the railways."

17 At page 101 of the Report there is this specific
18 recommendation:

19 " The Railway Act should be amended
20 to provide that when competitive trans-
21 continental tariffs are published by the
22 railways such tariffs shall contain a
23 provision that the rates to or from
24 intermediate territory shall not exceed
25 the transcontinental rates by more than
26 one third."

27 104. In 1951 the Parliament of Canada incorporated
28 this specific recommendation into the Railway Act and
29 it appears as Section 337 which reads as follows:
30



"337 (1) In this section

(a) 'eastern territory' means any point
on a line of railways east of Port
Arthur, Ontario or Armstrong, Ontario;

(b) 'western territory' means any point
on a line of railway in British
Columbia to which competitive
transcontinental tolls apply;

(c) 'intermediate territory' means any
point between eastern territory and
western territory on any line of
railway; and

(d) 'transcontinental freight traffic'
means freight traffic

(i) having its origin in eastern
territory and its destination in
western territory, or

(ii) having its origin in western
territory and its destination in
eastern territory.

(2) Tariffs naming a competitive toll for
any transcontinental freight traffic
shall provide that

(a) the toll for freight traffic having
its destination at a point in
intermediate territory, and

(i) having its origin at the same
point in eastern or western
territory,



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(ii) being of the same description,
and
(iii) carried in the same direction
and under the same conditions
and arrangements as to weight
and otherwise, as the
transcontinental freight traffic
for which the competitive toll
is named, shall not exceed by more
than one-third the competitive
toll so named to the point of
destination in eastern or
western territory, as the case
may be, nearest to the point of
destination in the intermediate
territory; and

(b) the toll for freight traffic having
its origin at a point in intermediate
territory, and

(i) having its destination at the
same point in eastern or western
territory,

(ii) being of the same description,
and

(iii) carried in the same direction and
under the same conditions and
arrangements as to weight and
otherwise,



1 as the transcontinental freight traffic for
2 which the competitive toll is named, shall
3 not exceed by more than one-third the
4 competitive toll so named between such point
5 of destination and the point of origin in
6 eastern or western territory, as the case
7 may be, nearest to the point of origin in
8 intermediate territory."

9
10 Q. This is the much talked of one and
11 one-third rule, Mr. Stechishin. What is the effect
12 of this section of the Railway Act on the traffic
13 movement and rate structure in Canada?

14 MR. STECHISHIN: Under this rule rates to
15 intermediate points can exceed rates to more distant
16 points, but the amount of the excess is limited to
17 one-third more than the lower rate to the more distant
18 point. It should be emphasized that this rule is
19 applicable only to transcontinental rates. Rates to
20 intermediate points may exceed by more than one-third
21 the rates to the more distant point if in fact the
22 movement is not of a transcontinental nature.

23 Q. And you mentioned one or two of those
24 on that discussion on the illustration 153-H?

25 MR. STECHISHIN: Yes.
26 106. This amendment to the Railway Act was
27 passed in 1951. However, an Act entitled the Transport
28 Act had been passed earlier by Parliament in 1938.
29 Section 32, sub-section (1), of the Transport Act,
30 prior to amendment in 1955, read:



1
2 "32 (1) Notwithstanding anything in the
3 Railway Act, or in this Act, but
4 subject to this section, a carrier
5 may make such charge or charges
6 for the transport of the goods of
7 any shipper or for the transport of
8 any part of his goods as may be
9 agreed between the carrier and that
10 shipper."

11 This Section, following the 1955 amendment, now reads:

12 "32 (1) Notwithstanding anything in the
13 Railway Act or in this Act, a
14 carrier may make such charges for
15 the transport from one point in
16 Canada to another point in Canada
17 of goods of a shipper as are agreed
18 between the carrier and the shipper."

19 107. As soon as the recommendation of the Turgeon
20 Commission on the one and one-third rule was written
21 into the Railway Act, the railways, under this provision
22 of the Transport Act of 1938, began negotiating agreed
23 charge contracts which they alleged were exempt from
24 the provisions of the Railway Act, and therefore, not
25 subject to the one and one-third rule. Shippers
26 in intermediate territory protested that by the use
27 of the agreed charges the railways were using the
28 Transport Act as a device to avoid complying with the
29 clear wishes of Parliament as evidenced in the
30 Railway Act. As a result, another Royal Commission,



1
2 again under the chairmanship of Mr. Justice Turgeon,
3 was established. This Commission upheld the
4 exemption of agreed charges from the operation of
5 the Railway Act.

6 Q. What is the position of the province
7 of Manitoba regarding this matter?

8 MR. STECHISHIN: The province of Manitoba
9 is of the view that what is necessary is a policy
10 which reflects both the interest of shippers at these
11 intermediate points, with emphasis on the protection
12 of their opportunity to compete in a particular
13 market, while at the same time permitting the railways
14 to meet existing and potential competition without
15 serious impairment of revenues. Any policy that
16 aims at equity must reflect both of these very real
17 interests.

18 THE CHAIRMAN: You are not asking a repeal
19 of the one and one-third?

20 MR. MAURO: No. We have our recommendation
21 in here, Mr. Chairman.

22 Q. Would you go on, Mr. Stechishin, to
23 place before this Commission your proposed solution?

24 MR. STECHISHIN:
25 109. The statement of the problem is much simpler
26 than the definition of a solution. In the first
27 place no one as yet has defined satisfactorily what
28 is a competitive rate. The railways themselves are
29 not always consistent in their designation of competitive
30 points. For example, C.N. Tariff W 100 - C shows



1
2 Bircham, Alberta, as competitive with Acme, Alberta
3 on the C.P.R. and Farrant, Alberta as competitive with
4 Lacombe, Alberta on the C.P.R. The corresponding
5 C.P.R. W 100 - A does not show either Acme or
6 Lacombe as competitive with the C.N.R. The Canadian
7 Pacific and the Canadian National railways intersect
8 at Findlay, Manitoba. Canadian Freight Association
9 Tariff W 209 shows both railways as serving this
10 point but neither railway has elected to designate
11 Findlay as a competitive station.
12 110. Some competitive rates are established by
13 the publication of the same rate as that of another
14 carrier operating over a parallel route. There
15 are situations, however, where the rate is introduced
16 not to meet that of a carrier over a similar or parallel
17 route, but rather to meet a particular market situation.
18 For example, a rate may be granted to an eastern
19 manufacturer in order to enable him to meet foreign
20 product competition in the Vancouver market. The
21 competitive rate might also be published by one
22 carrier to assist the shippers located on that carrier's
23 line to compete more effectively in a common market
24 served by other railways. "Hold-downs", as exceptions
25 to horizontal increases in the United States, might
26 properly be called market competitive rates. Again,
27 a single rate might be applied to several shippers on
28 a single railway enabling each to compete equally even
29 though the mileages as between shippers vary. The
30 so-called A and B rate groups in eastern Canada were



1
2 introduced initially to reflect the competition from
3 water carriers. They have been maintained as market
4 competitive rates since in fact they no longer reflect
5 carrier or water competition. These rates, it should
6 be noted, are not published as competitive rates.

7 Neither are the rate in the United States which are
8 subject to hold-downs published as competitive rates.

9 111. Many rates might be classified as product
10 competitive. When the shipper is able to substitute
11 one article for another, the railways will have to
12 reduce the rate on the one to encourage shipments
13 into a region where the other product is available
14 locally.

15 Q. That was exemplified, was it, Mr.
16 Stechishin, by the red cedar shingle group at
17 Vancouver?

18 MR. STECHISHIN: Yes, that is correct.

19 Q. They mentioned they had an alternative
20 product now in the eastern market and they wanted
21 a rate which would permit them to compete?

22 MR. STECHISHIN: That is correct.

23 Q. Would you please go on?

24 MR. STECHISHIN:

25 112. In discussing this complex problem of the
26 long and short haul clause, and in attempting to
27 arrive at some solution which will establish a
28 ceiling on the charge at intermediate points, a
29 distinction must be made between traffic to an
30 intermediate point and traffic from an intermediate



1 point. As long as the rate to an intermediate point
2 is reasonable of itself, that is, as long as the
3 rate to an intermediate point is not unreasonable or
4 unfair under the provisions of the Railway Act, and
5 as long as the lower rate to the more distant point
6 is both necessary and compensatory, it is difficult
7 to see how the receiver at the intermediate point is
8 injured by the lower rate to the more distant point.
9 In fact, it is our considered opinion that the
10 shipper at the intermediate point is helped by the
11 exception to the long and short haul clause since
12 the contribution to net revenue made by the lower
13 rate to the more distant point reduces the overhead
14 cost that would have to be borne by the traffic to
15 the intermediate point.

17 113. For example, let us assume that the
18 "normal rate" from Toronto to Vancouver is \$4.00 and
19 from Toronto to Winnipeg is \$2.00 per 100 pounds.
20 Assume further, that the variable or out-of-pocket
21 cost to Vancouver totals 95 cents and to Winnipeg,
22 because of the shorter haul, 65 cents per 100 pounds.
23 Also assume that 500,000 pounds of a particular
24 commodity are shipped to each destination, that is to
25 Vancouver and to Winnipeg. Then competition
26 manifests itself at Vancouver which requires the
27 carrier to reduce its rate from \$4.00 to \$1.00 per
28 100 pounds. The competition does not manifest itself
29 in the Winnipeg market and the carrier therefore,
30 due to the permissive exception, is not required to



reduce his rate to the Winnipeg market.

114. There are several choices open to the railway. Let us look at the effects of each choice on rail revenue.

And these examples, 1, 2, 3 and 4, are just a restatement in tabular form of what I have just said.

1. Normal Rates (prior to competition):

500,000 lbs. to Vancouver at \$4.00 \$20,000.00

500,000 lbs. to Winnipeg at \$2.00 10,000.00

Gross Revenue \$30,000.00

500,000 lbs. out of pocket cost
at 95 cents 4,750.00

500,000 lbs. out of pocket cost
at 65 cents 3,250.00

Less out-of-pocket costs 8,000.00

Contribution to general revenue \$22,000.00

2. The railways publish a Canadian rate of \$1.00 to Vancouver:

500,000 lbs. to Vancouver at \$1.00 5,000.00

500,000 lbs. to Winnipeg at \$2.00 10,000.00

Gross revenue \$15,000.00

Less out of pocket cost (as above) 8,000.00

Contribution to general revenue \$ 7,000.00

3. The traffic to Vancouver is abandoned:

500,000 lbs. to Winnipeg at \$2.00 \$10,000.00

Less:

500,000 lbs. out of pocket cost at 65¢ 3,250.00

Contribution to general revenue \$ 6,750.00



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4. The 1-1/3 rule is applied:

500,000 lbs. to Vancouver at \$1.00	\$5,000.00
500,000 lbs. to Winnipeg at \$1.33	<u>6,650.00</u>
Gross revenue	\$11,650.00
Less out of pocket cost (as in 1)	<u>8,000.00</u>
Contribution to general revenue	<u>\$ 3,650.00</u>

Now, in Example No. 1, the normal rates, prior to competition are 500,000 pounds to Vancouver, \$4.00, making \$20,000.00. Then, we have 500,000 to Winnipeg at \$2.00, \$10,000.00. The gross revenue there is \$30,000.00.

Then, 500,000 lbs. out of pocket cost at 95 cents, \$4,750.00. Then, 500,000 lbs. out of pocket cost at 65 cents, \$3,250.00. Taking off the out of pocket costs \$8,000.00, the contribution to general revenue would be \$22,000.00.

Now, as we stated on the last page, in Example No. 2 the railways find it necessary to publish a rate of \$1.00 to Vancouver, so the revenue to Vancouver is reduced from the \$20,000.00 to the \$5,000.00 in this illustration. The traffic to Winnipeg is unaffected, and it remains at \$10,000.00.

Now, the gross revenue is \$15,000.00. The out of pocket costs are unchanged, because the quantities moving in are unchanged -- \$8,000.00. Then, the contribution to general revenue is \$7,000.00.



Under Example No. 3, the railways decide to abandon the traffic to Vancouver and therefore none is shipped, so we still have the 500,000 lbs. to Winnipeg at \$2.00, for a total of \$10,000.00. The out of pockets costs are now based on 500,000 lbs. at 65 cents, \$3,250.00, and the contribution to general revenue is \$6,750.00.

Then, Section 4 here shows what would happen if the one and one-third rule were applied, and the business at Vancouver is retained by a rate of \$1.00, giving the railways \$5,000.00 to Vancouver. The rate to Winnipeg, though, is reduced from \$2.00 to \$1.33.

Q. That is to reflect the one and one-third rule?

MR. STECHISHIN: To reflect the one and one-third over the Vancouver rate of \$1.00. So the revenue there is \$6,650.00, for a gross total of \$11,650.00. The out of pocket costs are the same as in Example 1, at \$8,000.00, and the contribution to general revenue is now \$3,650.00.

115. It seems clear, that once competition becomes a fact, the railways, from the point of view of contribution to net revenue, should meet the competition where it occurs and not reduce their rates to intermediate points. The railways obtain the least contribution to net revenue when they are forced to reduce their rates to intermediate points, and in fact, would improve their financial position



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1
2 by abandoning the traffic rather than by making such
3 reductions.

4 Q. Now, just to get this in perspective,
5 Mr. Stechishin, what the province of Manitoba is
6 stating here is that where there is a shipper in
7 Toronto shipping into the Winnipeg and Vancouver
8 market the railways are in the worst position vis-a-
9 vis net contribution where they are impelled to have
10 the one and one-third rule applied?

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12 -

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1
2 MR. STECHISHIN: Or some such restriction
3 on the traffic.

4 Q. And they would be better to abandon the
5 traffic to Vancouver in this illustration -- and it is
6 only an illustration -- rather than apply it?

7 MR. STECHISHIN: Yes.

8 MR. FRAWLEY: Or make an agreed charge.

9 MR. MAURO: Yes; under the present setup
10 they are making an agreed charge.

11 MR. FRAWLEY: They have to do it by agreed
12 charge or violate the law. That is why they do it.

13 MR. STECHISHIN: We wish to re-emphasize
14 that this is the situation which occurs when the
15 railways are faced with competition to a distant
16 point and are forced to reduce their rate to
17 an intermediate point.

18 MR. MAURO: You have described the impact
19 where traffic moves to the intermediate points. What
20 are the impacts where the traffic moves from an inter-
21 mediate point?

22 MR. STECHISHIN:
23 116. On the other hand, where the traffic moves
24 from an intermediate point, the same factors produce
25 sharply contrasting results. Assume in this case
26 that the market at Vancouver is 1,000,000 pounds of a
27 particular commodity, and that Toronto and Winnipeg,
28 in the absence of external competition, share equally
29 in the market. As in the previous example, the
30 out-of-pocket cost, Toronto-Vancouver, is 95 cents;



the out-of-pocket costs, Winnipeg-Vancouver, is 65 cents per 100 pounds.

1. Normal Rates Prior to Competition.

500,000 lbs. ex Toronto @ \$4 \$20,000
500,000 lbs. ex Winnipeg @ \$2 10,000

Gross Revenue \$30,000

500,000 lbs. out of pocket
costs @ 95¢ 4,750

500,000 lbs. out of pocket
costs @ 65¢ 3,250

Less out of pocket costs 8,000

Contribution to General Revenue \$22,000

2. The Railways publish a rate of \$1.00 ex Toronto and abandon the traffic from Winnipeg

1,000,000 lbs. ex Toronto
at \$1.00 10,000

1,000,000 lbs. out of pocket
costs @ 95¢ 9,500

Contribution to General Revenue \$ 500

3. The Railways publish a rate of \$1.00 ex Winnipeg and abandon the Toronto traffic

1,000,000 lbs. ex Winnipeg
@ \$1.00 10,000

1,000,000 lbs. out of pocket
costs 6,500

Contribution to General Revenue \$ 3,500

4. The Railways publish a rate of \$1.00 ex Toronto and ex Winnipeg

500,000 lbs. ex Toronto @ \$1 5,000
500,000 lbs. ex Winnipeg @ \$1 5,000

Gross Revenue 10,000

500,000 lbs. out of pocket
costs @ 95¢ 4,750

500,000 lbs. out of pocket
costs @ 65¢ 3,250

Less out of pocket costs 8,000

Contribution to overhead \$ 2,000



5. The railways might publish a rate from Toronto and from Winnipeg based on out of pocket costs plus an arbitrary, say 30¢

500,000 lbs.ex.Toronto @95¢	
plus 30¢ equals \$1.25	\$6,250.
500,000 lbs.ex.Wpg.@ 65¢	
plus 30¢ equals 95¢	<u>4,750.</u>

Gross Revenue	\$11,000
---------------	----------

500,000 lbs.out of pocket costs	
@ 95¢	4,750
500,000 lbs.out of pocket costs	
@ 65¢	<u>3,250</u>

Out of pocket costs	<u>\$ 8,000</u>
---------------------	-----------------

Contribution to Overhead	<u>\$ 3,000</u>
--------------------------	-----------------

Q. Under 1 where the two points, Winnipeg and Toronto, share the markets, the net contribution was \$2,200?

MR. STECHISHIN: Yes; that is prior to competition.

Q. Competition manufactured itself, and under 2 the net contribution is reduced to \$500.

No. 3 is the alternative of No. 2.

117. Under the situation where traffic moves to intermediate points where competition is not compelling, a reduction in the intermediate rates has the most adverse effect on rail revenues while a reduction in the longer haul has the most beneficial effects.

118. Under the situation where traffic moves from intermediate points the exact opposite is true. The railways stand to gain most by reducing the rate from the intermediate point and gain least by reducing the



1
2 rate for the longer haul.

3 119. This situation prevails despite the fact
4 that the competition may exist only between Toronto and
5 Vancouver and not between Winnipeg and Vancouver.

6 120. The long and short haul clause makes no
7 distinction between traffic to intermediate points
8 and traffic from intermediate points.

9 121. .. It is our submission that the railways
10 should wherever possible meet competition in such a
11 manner as to minimize their losses and that this
12 can be best achieved by allowing the various com-
13 peting industries to enter a common existing or potential
14 market on an equitable basis.

15 122. Competitive rates, in the railways' best
16 interests should not merely be confined to between
17 the points where the competition operates but rather
18 to the common market or markets from the various
19 producing points.

20 Q. Mr. Stechishin, I believe that the
21 province has prepared a statement which appears as
22 Appendix II in Exhibit 153. This appendix is en-
23 titled "Comparison of Manitoba Rates with Trans-
24 continental Rates". I would ask that be marked as
25 Exhibit 153-I.

26
27 ---EXHIBIT NO. 153-I:

Appendix II -- Comparison
of Manitoba Rates with Trans-
continental Rates.

28
29 MR. MAURO: Q. I understand, Mr. Stechishin,
30 that it covers rates to the British Columbia coast,



1
2 Vancouver, except as noted. Those are the rates ex
3 Winnipeg, Toronto to British Columbia?

4 MR. STECHISHIN: Yes.

5 Q. And Appendix III, which will now become
6 Exhibit 153-J is entitled "Comparison of Manitoba
7 Rates with Transcontinental Rates to Eastern Canada,
8 Toronto, except as noted," ex Winnipeg, ex B.C.

9
10 ---EXHIBIT NO. 153-J: Appendix III -- Comparison of
11 Manitoba Rates with Trans-
12 continental Rates to Eastern
Canada, Toronto, except as
noted.

13 MR. SINCLAIR: Could I ask you what, under
14 "alcohol" ex B.C., capacity, means in Exhibit 153-J?
15 Whatever the limit of the cars supplied?

16 MR. STECHISHIN: It is movement in tank
17 cars where the minimum weight is based on the capacity
18 of the car.

19 MR. MAURO: Q. Have you any comment to make
20 on this?

21 MR. STECHISHIN: Not at the moment. The
22 same type of information was contained in the Premier's
23 brief in Winnipeg, and probably a little fuller.
24 It is comparing eastern Canada to Vancouver and from
25 Vancouver or British Columbia to Eastern Canada,
26 compared to Winnipeg to eastern Canada in the opposite
27 direction.

28 Q. What is the position of the province of
29 Manitoba regarding this inequity of long and short
30 haul?



MR. STECHISHIN: Recommendation: Long and Short Haul Clause.

123. The province of Manitoba therefore submits that the present policy is clearly inequitable in respect to the intermediate points. It is the position of the province of Manitoba that this Commission recommend as follows:

Firstly: That the railways should not be permitted to select the centres which will be allowed to compete in a given market.

Secondly: When a competitive rate is published from a more distant point, the intermediate point, in our case Manitoba, should be given a rate reflecting its shorter haul to the same destination, that is a rate reflecting its geographic location.

Thirdly: Normal relations between shipping points to a given market should be generally maintained. In other words, the rate from Winnipeg to Vancouver should be lower than the rate from Toronto to Vancouver on the same commodity. Similarly, the rate from Winnipeg to Toronto should be lower than the rate from Vancouver to Toronto on a given commodity.

Q. Now, this submission of the province of Manitoba is meant to be applicable across the Dominion of Canada to all intermediate points and shipments from those points?



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MR. STECHISHIN: That is correct.

THE CHAIRMAN: What does it do to railway revenues?

MR. STECHISHIN: I felt that the illustration on pages 52 and 53 clearly indicated that it would assist the railway revenues.

MR. MAURO: We are arguing that it will make an improvement, that inequitable rates are instituted from the intermediate points.

MR. STECHISHIN: Every time a car starts from Toronto to Vancouver instead of Winnipeg to Vancouver their costs are very much higher, even if the rates are the same. So in that respect it would be better to encourage Winnipeg traffic rather than Toronto traffic.

MR. MAURO: Q. And we are not suggesting under this proposal any geographical disadvantage that Manitoba has be offset?

MR. STECHISHIN: None whatever.

Q. And all we are asking is if there is any geographical advantage in Manitoba the rail policy should not be allowed to offset that advantage?

MR. STECHISHIN: That is correct, sir.

MR. SINCLAIR: Is it the submission of the province of Manitoba that this be incorporated as a legislative change to the One and One-Third Rule?

MR. FRAWLEY: Mr. Mauro said he was not asking for a repeal of the One and One-Third Rule.

THE CHAIRMAN: No, merely an extension.



1
2 MR. MAURO: It is merely an attempt to
3 create a competitive situation which results in the
4 greatest possible revenues for the railways while
5 still attempting to get this equitable balance, and
6 we suggest that our proposal does bring the balance
7 to the shipper at the intermediate points and also to
8 the real interest of the railways.

9 MR. SINCLAIR: Did you say this was a
10 legislative change?

11 MR. MAURO: We have put it forward on page
12 54 recommending to this Commission to make the recom-
13 mendations as we set out.

14 MR. SINCLAIR: I would like to clear this
15 one thing up. Is it the position of the province of
16 Manitoba that the railways cannot do what they are
17 suggesting here now if they so desire?

18 MR. MAURO: That they can't do it?

19 MR. SINCLAIR: Yes.

20 MR. MAURO: No, there is no suggestion in
21 our brief if the railways wanted to do this they
22 could not do it. The simple matter is that the rail-
23 ways apparently to this moment have not done it. We
24 say that shippers and railways have both suffered as
25 a result of this, and if this Commission decides to
26 recommend a legislative change, well and good; if they
27 feel that a directive to the railways is sufficient,
28 that's fine. We are saying that they haven't done it
29 to date and it is inequitable.

30 COMMISSIONER ANSCOMB: You are saying that a



1
2 recommendation of legislative change would compel them
3 to do it.

4 MR. FRAWLEY: I would suggest that he
5 recommend that it be by legislative amendment and not
6 fall into the fluke situation we are in, where you can
7 by means of agreed charge drive a cart and horse
8 through everything that Mr. Turgeon suggested in the
9 1951 report.

10 MR. MAURO: Q. Now, I believe you wish
11 to discuss another item, namely, Lake and Rail Rates.

12 MR. STECHISHIN: Yes, I do.
13 124. The movement of commodities over the
14 Great Lakes inland waterway system is of importance
15 to the prairie region, particularly to the province of
16 Manitoba. This importance has been increased further
17 with the opening of the St. Lawrence Seaway System.
18 Water transportation historically has been of great
19 advantage to the central region of Canada by providing
20 a low cost means of carriage of goods into the
21 prairie region. Under the present practice of the
22 Board of Transport Commissioners in setting rates
23 for the movement of commodities by water, the geo-
24 graphical advantages once enjoyed by the prairie
25 region have been denied. It is our submission
26 that this practice represents an inequity in the
27 Canadian freight rate structure.

28 125. Considerable evidence has been presented
29 to the Board of Transport Commissioners by various
30 interests including the railways to the effect that



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2 competition from the Great Lakes carriers has been,
3 and continues to be, very real. The lake carriers
4 cannot compete in terms of service but in terms of
5 cost of carriage they are substantially below that
6 of the rail carriers. As early as 1895 a House of
7 Commons Railway Rates Committee which investigated
8 Canadian rates and those on United States railroads
9 operating under similar conditions reported that
10 merchandise which moved via all-rail by Canadian
11 Pacific was carried at considerably higher rates, but
12 that 80 per cent of the traffic was carried by
13 lake-and-rail at a lower rate. (A. W. Currie,
14 "Economics of Canadian Transportation", second
15 edition, Toronto, 1958, pages 46-47.) It would seem
16 logical therefore to expect that the "normal" rates
17 of the lake carriers would be well below the "normal"
18 rates of the higher cost rail carriers. One would
19 also expect to find that the railways would reduce
20 their "normal" rates to a level reflecting that of
21 their lower cost competitors. Indeed, such was the
22 case from the early days until the First World War.

23 MR. MAURO: "The growth of the West was
24 accompanied by the extension to Lakehead
25 of the competition between rail and
26 water carriers which had existed for
27 many years along the Lower Lakes and the
28 St. Lawrence River. In the early years
29 of the twentieth century rate cutting
30 between the two transportation agencies



1
2 apparently developed but about 1908 they
3 tacitly agreed that rates by all-water
4 or by rail-and-water should be a fixed
5 differential below all-rail rates. In
6 effect, they agreed on a 'fair' division
7 of the business to and from Lakehead.
8 There could 'be no doubt at all as
9 the efficiency of the waterways spread
10 through eastern Canada from its easterly
11 coast and terminating with the western
12 limit of the most westerly division
13 of the east -- at Port Arthur and Fort
14 William.' Water competition forced re-
15 ductions in rates between a great many
16 centres in eastern Canada and on
17 numerous commodities."

18 (A. W. Currie, "Economics of Canadian Transportation"
19 second edition, Toronto 1959, page 54.)

20 MR. STECHISHIN:

21 126. The railways at first tried to maintain the
22 level of their rates on the premise that shippers
23 would be willing to pay higher rates for faster year
24 round service. However, this proved not to be the
25 case, and the railway were forced to reduce their
26 rates. By trial and error, it was discovered that
27 a premium of about 20 per cent was all that shippers
28 were prepared to pay for the faster service. The
29 railways accordingly set their through rates to
30 Winnipeg at a level about 20 per cent higher than the



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2 shipper would have to pay using water carriers to
3 the Lakehead and the railway beyond. Because
4 the water carriers charged the same rate to the
5 lakehead from Toronto as from Montreal, the railways
6 were only obliged to reduce their Montreal rate to
7 the Toronto level. These reduced rates from
8 Montreal and Toronto were allowed to apply as
9 maxima to or from intermediate inland stations
10 and in this manner the large block of stations known
11 as groups A and B came into existence. Thus,
12 the basis for the all rail rates consisted of three
13 factors: first, the cost of moving by water to the
14 lakehead; second, the rail rate beyond to destina-
15 tion; and third, the premium, or differential
16 which was added to the sum of the other two.

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2 127. The significant element here is that the
3 level of rail rates was governed by the level of the
4 water rates and that successive reductions were
5 made in the rail rates until a satisfactory traffic
6 volume was achieved. During the first World War,
7 the demands of wartime commerce all but eliminated
8 package freighters from the Great Lakes. The few
9 remaining lakers whose rates were not yet controlled,
10 responded to the law of supply and demand, and raised
11 their rates, in disregard of the differential which the
12 railways used to measure the difference in the value
13 of the two services.

14 128. On April 23, 1917, the railways filed new
15 tariffs increasing the eastern factor in the through
16 lake and rail rates by the same amount as the increase
17 taken by the water carriers. The Board of Railway
18 Commissioners suspended the proposed tariffs until
19 an investigation had been made. The Board then
20 permitted the increase, effective September 1, 1917
21 (VII: J.O.R.R. 321). This increase in the eastern
22 factor resulted in an increase in the through east-
23 west rate by the same amount taken by the water
24 carriers. It is important to note that the rates
25 were not increased by a percentage of the existing
26 rates but by a flat amount. The lessening of
27 the water competition increased only that portion of the
28 rate subject to water competition and not the Lakehead-
29 west portion of the rate. It should follow that
30 if an increase in non-competitive rail rates were



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2 granted, only that portion of the through rate not
3 subject to competition should be increased. Such,
4 however, was not entirely the case. Effective March
5 15, 1918, the Board of Railway Commissioners
6 permitted percentage increases in rail rates. The
7 increases allowed were 10 per cent on the eastern
8 or that portion of the rate subject to competition,
9 and 15 per cent on the western portion. The
10 eastern portion was the sum of the water rates plus
11 the differential. The differential itself was not
12 increased.

13 Q. I wanted to have this clear: when
14 this scheme of competing modes of transportation,
15 water and rail, came into existence the water
16 carriers set a rate level reflecting their cost
17 characteristics, and the railways lowered their
18 rates until they got to a point where they were
19 achieving a satisfactory traffic flow?

20 MR. STECHISHIN: Somewhat above that level,
21 yes.

22 Q. Due to their cost characteristics.
23 Then, in 1917 the water carriers realizing they were
24 in greater demand and there was less space available,
25 increased their rates and the railways moved up under
26 that umbrella but only raised their portion from the
27 east to Fort William?

28 MR. STECHISHIN: That is correct.

29 Q. ...which was the portion that actually
30



1 represented water competition?

2 MR. STECHISHIN: That is correct.

3 Q. Would you go on please?

4 MR. STECHISHIN:

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6 129. Presumably, the loss of traffic to water
7 carriers occasioned by this increase was negligible,
8 because five months later, on August 12, 1918 another
9 increase was granted. Further evidence of the lessening
10 impact of water competition is found in the fact that
11 the eastern or competitive portion of the through rate
12 was increased by 25 per cent while on the western or
13 non-competitive portion the increase allowed was
14 25 per cent in lieu of the 15 per cent allowed earlier.

15 130. Two years later, on September 13, 1920,
16 a further increase was granted, again with a larger
17 increase on the now not so competitive eastern portion.
18 This was increased by 40 per cent while the western
19 portion was raised 35 per cent. These last increases
20 were later cut back to 25 per cent and 20 per cent
21 respectively.

22 Q. What is the real significance of
23 this historical summary you have presented to the
24 Commission?

25 MR. STECHISHIN:

26 131. The important thing to note here is that
27 the competition on the eastern factor was very real,
28 that the rate charged by the railway reflected the
29 competition where it existed, that as the competition
30 lessened, the rail rate reflected this lessening and



1
2 tended to return to normal, and finally that each
3 portion of the through rate was treated separately to
4 reflect the different transportation characteristics.

5 Q. Therefore, what you are alleging,
6 here, Mr. Stechishin, is that there was a time when
7 there were, in fact, competing modes of transportation
8 each reflecting their own characteristics and that
9 as the situation changed the rate structure changed?

10 MR. STECHISHIN: That is correct.

11 Q. And if it was a lake and rail competitive
12 situation then that portion of the rail rate which
13 was subject to water competition reflected changes in
14 the water competitive factor?

15 MR. STECHISHIN: That is right.

16 132. The following table illustrates the distinct
17 treatment of each portion and the lessening effect of
18 the competition.

19 To illustrate here, I have used the first
20 class rate from Toronto to Winnipeg and separated the
21 rate into two factors, the eastern factor -- Toronto
22 to Fort William -- or the competitive factor and non-
23 competitive factor from Fort William to Winnipeg, and
24 then the through rate. On December 23rd the rate
25 on the eastern portion for 812 miles was 75 cents
26 which produced a rate per ton mile of .185. The
27 rate on the western portion for 420 miles was 89 cents,
28 with a ton mile rate of .424. The 75 cents plus
29 89 totals 164, and that was the rate charged on the
30 through movement.



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2 Q. So that a rate from Toronto to Winnipeg
3 was made up of the rate from Toronto to Fort William
4 by water, or the competitive rate as the result of
5 that, plus the overland rail rate from Fort William
6 to Winnipeg.

7 MR. STECHISHIN: That is right. Then,
8 prior to September 1, 1917 the water carriers had
9 increased their rates by six cents, and the railways
10 followed suit with a six cent increase in the rail rate.
11 Now, we have the 75 cents going up to 81 cents, as
12 shown on the third line, with a rate per ton mile of
13 two cents even. The western rate, for reasons which
14 are not pertinent to this discussion, was reduced
15 from 89 to 85 cents, and the cents expressed in cents
16 per ton mile is 4.05, and the rate was \$1.60.

17 Q. Again, simply adding the water competitive
18 factor to 81 cents plus the land carriage at 85?

19 MR. STECHISHIN: Right, sir. Then, the
20 next three or four lines show the effect of the other
21 increases that are referred to, and the figure on
22 December 21st, 1921 was \$1.39½ to the Lakehead and
23 \$1.28 from the Lakehead to Winnipeg for a total of
24 \$2.67½. The percentage increase from December 23, 1907
25 in the competitive factor, the Toronto to Fort
26 William portion, was 86 per cent, the increase in
27 the rate from Fort William to Winnipeg during that
28 same period was only 44 per cent, for a total increase
29 in the through rate of 63 per cent.
30



Table 8

First Class Toronto to Winnipeg in Cents per One Hundred Pounds.

	<u>Competitive</u> <u>Factor</u> Toronto - Ft. William, 812 miles		<u>Non-Competitive</u> <u>Factor</u> Ft. Wm. - Wpg. 420 miles		<u>Through</u> <u>Rate</u>
	Rate	Cents per ton-mile	Rate	Cents per ton-mile	
December 23, 1907	75	1.85	89	4.24	164
		plus 6 cents			
September 1, 1917	81	2.00	85	4.05	166
		plus 10%		plus 15%	
March 15, 1918	89	2.19	98	4.67	187
		plus 25%		plus 25%-15%	
August 12, 1918	111 1/2	2.75	106 1/2	5.07	218
		plus 40%		plus 35%	
September 23, 1920	156	3.84	144	6.86	300
		plus 25%-40%		plus 20%-35%	
December 21, 1921	139 1/2	3.44	128	6.10	267 1/2
Percent Increase		86%		44%	63%

133. This table clearly illustrates that the eastern and western portions of the through rates are unrelated, and that due to the decrease in competition, the railways were able to increase the eastern portion by 86 per cent while the western portion was increased by only 44 per cent. The increase in the through rate amounted to 63 per cent.

134. The table also illustrates the impact of the competition in that the eastern portion in 1907 was 1.85 cents per ton mile while the western portion was 4.24 cents per ton mile. It is reasonable to assume that in the absence of this competition both portions would be on the same basis and the ton-mile figures comparable, distance considered. The mileage from Fort William to Moose Jaw is 818, roughly the same



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2 distance as from Toronto to Fort William at 812 miles
3 and these rates make comparisons more accurate.

4 And, as in the first table, the mileage
5 from Fort William to Winnipeg was 420, and it is not
6 proper or fair to compare a ~~ton~~ mile figure for a
7 short haul and long haul, if I may use that distinction.
8 So, what we have done here is to take equivalent
9 mileages on the eastern and western portions to make
10 the comparison more valid. Here we note that the
11 rate from Toronto to Fort William on September 1st, 1914,
12 which was the first date I had, 75 cents the same as
13 shown on the previous table, and from Fort William
14 to Moose Jaw \$1.60 for a total of \$2.35. Then, on
15 December the 21st the eastern portion had gone up to
16 \$1.39, as indicated in the previous table, the portion
17 from Fort William to Moose Jaw to \$2.30 for a through
18 rate of \$3.69. Percentage-wise the increase was
19 86 per cent in the eastern portion, 44 per cent in the
20 western portion, and both of these calculations are
21 the same as in Table 8 on the previous page, but the
22 through rate had gone up only 57 per cent to Moose
23 Jaw whereas it had gone up by 63 per cent to Winnipeg.

24 Q. One of the significant factors there
25 is that again the two factors are distinct and
26 separate and they reflect the competitive situation in
27 each of the particular sections involved -- in one
28 case the water portion of the Canadian haul and the
29 other the land portion?

30 MR. STECHISHIN: That is correct.



Q. That is at December 21, 1921?

MR. STECHISHIN: That is correct, yes.

Table 9

First Class Toronto to Moose Jaw in Cents per One
Hundred Pounds

	<u>Competitive</u> <u>Factor</u>		<u>Non-Competitive</u> <u>factor</u>		<u>Thr- ough Rate</u>
	<u>Toronto-</u> <u>Ft. Wm.</u> <u>812 miles</u>		<u>Ft. Wm. -</u> <u>Moose Jaw</u> <u>818 miles</u>		
	<u>Cents per</u> <u>Rate ton mile</u>		<u>Cents per</u> <u>Rate ton-mile</u>		
September 1, 1914	75	1.85	1.60	3.91	235
December 21, 1921	139½	3.44	2.30	5.62	369½
Percentage Increase	86%		44%		57%

135. With equal mileages we find that the factor in 1914 for the competitive portion is 75 cents compared with the non-competitive factor of \$1.60 or a reduction of 53 per cent in the competitive portion.

That is, the 75 cents is 53 per cent less than the \$1.60 for the same mileage.

By 1921, the competitive factor had risen to \$1.39½ while the non-competitive factor had risen to \$2.30, or a reduction now of only 39 per cent.

Q. And this is what you have referred to, that the water competition was lessening?

MR. STECHISHIN: That is right, whereas at one time it compelled a 53 per cent reduction in the rate, by 1921 the compulsion was only to the extent of 39 per cent.

136. Even more important is the fact that the



1
2 lessening of competition due to wartime conditions
3 resulted in a greater percentage increase in the
4 through rate to Winnipeg than to Moose Jaw. The
5 increase of 63 per cent to Winnipeg, as compared with
6 only 57 per cent to Moose Jaw, was nothing more than
7 a reflection of the fact that Winnipeg, being closer
8 to the Great Lakes, had enjoyed greater benefits from
9 the competition inherent in its location and quite
10 understandably suffered the loss of the effectiveness
11 of that competition to a greater degree. These
12 changes in relative rate levels, while onerous to
13 Winnipeg, were inevitable and unavoidable as long as
14 the rates of the water carriers were uncontrolled and
15 allowed to seek their own level.

16 Q. So that in a freely competitive
17 situation when the water competitive factor became
18 more compelling, Winnipeg benefited?

19 MR. STECHISHIN: That is right.

20 Q. And when the competitive factors
21 lessened Winnipeg took their losses?

22 MR. STECHISHIN: Relatively greater or less
23 to the points west of us, depending on whether it was
24 downwards or upward.

25 137. Each increase in rail rates merely raised
26 the umbrella over water rates created by the differential
27 method of rate making and the remaining package
28 freighters generally elected to follow the rail rates
29 upward rather than compete pricewise for the traffic
30 offering.



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2 Q. What was the next phase of this
3 development and lake and rail rates policy?

4 MR. STECHISHIN: So far, we have come up to
5 1921. There were no changes.
6 138. In 1938, the Transport Act was passed changing
7 the name of the Board of Railway Commissioners to that
8 of the Board of Transport Commissioners and placing
9 control of package freighters and their rates under
10 that body. With the Second World War and price
11 control nothing was done respecting freight rates until
12 the application of the Railway Association for a 30
13 per cent rate increase in 1946.

14 There was no change between 1921 and 1946
15 in the rate structure between eastern and western
16 Canada.

17 139. In this rate case and in all following
18 cases, including the 17 per cent increase granted in
19 1958, the Board of Transport Commissioners had
20 permitted the lake carriers to preserve the
21 differentials arbitrarily established 50 years
22 previously. Despite the fact that the Transport Act
23 subjects the rates of the water carriers to the same
24 rigid control requirements as rail rates under the
25 Railway Act, the water carriers' need for an increase
26 has never been tested in open court while the
27 testing of the railway increases has been exhaustive.

28 Q. Did the water carriers in the 17 per
29 cent case of 1958 request an increase, Mr. Stechishin?

30 MR. STECHISHIN: No, they did not.



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Q. Were you present at those hearings in
1958?

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MR. STECHISHIN: Yes, I was.

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Q. Do you remember whether or not a
telegram was sent by counsel for the water carriers
asking permission to raise their rates to maintain the
differential?

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MR. STECHISHIN: I seem to recall that I did
hear about. I did not see the telegram.

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Q. Did Manitoba object to any increase
in the water rates without their showing cause at that
time?

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MR. STECHISHIN: That is my recollection.

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Q. Were the water carriers permitted to
maintain their differential pricing as a result of the
17 per cent increase?

18

MR. STECHISHIN: Yes, they were.

19

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Q. Do you remember what was the basis for
the railways requesting that 17 per cent increase?

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MR. STECHISHIN: It was based, as I recall,
almost entirely, if not entirely, on a wage award --
on an award to railway labour.

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Q. Correct me if I am wrong, but the
water carriers in Canada were permitted without showing
cause to raise their rates on the basis of an increase
awarded the railways for increased wages?

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MR. STECHISHIN: That is my recollection.



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THE CHAIRMAN: Order, please. Mr. Mauro?

MR. MAURO: Thank you, Mr. Chairman.

Q. Mr. Stechishin, when we adjourned at noon we were discussing this matter of the lake and rail rates and you had advised the Commission that in the last 17 per cent case, for example, the application of the railroads was based completely on a wage award and yet the water carriers, without once appearing before the Board, were able to get a similar increase of 17 per cent in water rates, although they had had no similar wage increase, nor had they been required to demonstrate an increase in costs.

What alternative policies were available to the Board of Transport Commissioners in the setting of these lake and rail rates?

MR. STECHISHIN: This would apply not only to the last 17 per cent case, but to all of the cases since 1938.

140. The Board of Transport Commissioners had four choices open to them. First, they could have determined the increase in cost of carriage by water and granted the water carriers an increase reflecting any increased cost. Second, they could have determined the average increase in costs for all carriers under their jurisdiction; that is, rail and water and granted each carrier an increase based on this average increase in costs. Third, they could have determined the increase in rail costs and granted the water carriers the same percentage increase.



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2 Fourth, they could have determined the increase in
3 rail costs and permitted the water carriers to maintain
4 the former differential under the new all-rail rates,
5 thereby granting them an increase of the same number
6 of cents per 100 pounds.

7 Q. For clarification, could you illustrate
8 these four methods that were open to the Board of
9 Transport Commissioners?

10 MR. STECHISHIN: I have prepared a little
11 addenda, I suppose you would call it, to the brief.

12 COMMISSIONER ANSCOMB: It may be that
13 you have it a little further on, and if so don't
14 answer it, but how long did the water fellows go
15 before they actually got a wage increase?

16 MR. STECHISHIN: I do not have the
17 information on when specific wage increases were
18 awarded to the water carriers.

19 COMMISSIONER ANSCOMB: Would it be very
20 long?

21 MR. STECHISHIN: In some cases it would
22 be before the railways; in some cases, after.

23 COMMISSIONER ANSCOMB: All I want is
24 after the 17 per cent went in for rail, how long
25 were water left alone before they were attacked and
26 had to get an increase?

27 MR. STECHISHIN: I don't know, Commissioner
28 Anscomb.

29 MR. MAURO: If possible, I will try and
30 find out for you.



1
2 Q. There is this addendum, Mr. Stechishin,
3 which we have now provided the Commission with.
4 Would you be good enough to explain it?

5 MR. STECHISHIN: This was prepared to
6 illustrate the four choices open to the Board, and
7 for the purpose of this illustration we have rounded
8 off the figures and stated that the approximate
9 increase of 150 per cent -- in actual practice, it
10 was 157 per cent -- in the rail rate has been
11 necessary to reflect increases in rail costs.

12 MR. MAURO: That, Mr. Chairman and
13 Commissioners, is the 157 per cent since the Second
14 World War.

15 MR. STECHISHIN: Assume an increase of
16 125 per cent in water rates would have been sufficient
17 to cover the increase in water cost. If rail
18 traffic is 80 per cent of the total, the average
19 increase -- that is, water and rail -- in rates
20 would amount to 145 per cent.

21 So that under the first method the water
22 rate from Toronto to Fort William prior to the
23 war was \$1.06 $\frac{1}{2}$. The rail rate from Fort William
24 to Winnipeg was \$1.28. The lake and rail rate
25 from Toronto to Winnipeg was the sum of those two,
26 or \$2.34 $\frac{1}{2}$. The differential was 33 cents, and
27 the all-rail rate from Toronto to Winnipeg was
28 \$2.67 $\frac{1}{2}$.

29 MR. MAURO Q: I do not quite understand,
30 Mr. Stechishin -- what is the 33 cent differential?



1
2 MR. STECHISHIN: That is the 33 cent
3 differential which was tacitly agreed upon, as
4 Professor Currie says, back in 1908, and it has not
5 been changed, except there was a one cent change in
6 the first class differential in 1956 or 1957.

7 Q. So there is a tacit agreement that
8 the water carriers will maintain their rate 33 cents
9 below the railway?

10 MR. STECHISHIN: On first class, yes.

11 Q. Will you please carry on?

12 MR. STECHISHIN: Under the first method,
13 where each rate is increased by the actual increase
14 in cost, the water rate Toronto to Fort William would
15 be increased by 125 per cent on the assumption we
16 discussed a minute ago, resulting in a rate of \$2.40
17 from the \$1.06 $\frac{1}{2}$ that we started with.

18 The rail rate from Fort William to
19 Winnipeg would be increased by 150 per cent, and that
20 would go from \$1.28 to \$3.20. The lake and rail
21 rate or the sum of those two would be \$5.60, or a
22 total increase of 139 per cent.

23 The all-rail rate would be increased by
24 the all-rail increase in cost, or 150 per cent, and
25 that becomes \$6.69. If we subtract the projected
26 water and rail rate from the all-rail rate, we would
27 have a differential of \$1.09 instead of the
28 differential of 33 cents which existed prior to the
29 war.

30 Q. That is under the method whereby their



1
2 rates reflect their costs?

3 MR. STECHISHIN: That is correct.

4 MR. MAURO: Very good.

5 MR. STECHISHIN: Under Method No. 2, if
6 the Board of Transport Commissioners had averaged
7 water cost and rail cost and said that any increase
8 we grant will be one reflecting that average increase, --
9 this is more what the Board does between the two
10 railways: they do not grant an increase to Canadian
11 Pacific and Canadian National. They average the
12 cost of both and apply the increase on that average
13 basis.

14 If that procedure had been followed, each
15 one of the rates would have then gone up by 145 per
16 cent, which would be the average increase in cost
17 by both types of carriers; the water rate would
18 have gone up from $\$1.06\frac{1}{2}$ to $\$2.61$. The rail rate
19 from Fort William to Winnipeg, from $\$1.28$ to $\$3.14$,
20 and the lake and rail rate from $\$2.34\frac{1}{2}$ to $\$5.75$.
21 The all-rail rate from Toronto to Winnipeg would have
22 gone up from $\$2.67\frac{1}{2}$ to $\$6.56$, and the differential
23 would then be 88 cents. Under this method, they
24 could have increased just as effectively the
25 differential by the amount of the percentage increase.
26 The result is the same.

27 Q. Your third method?

28 MR. STECHISHIN: Under the third method,
29 as we mentioned earlier, the rail rate is increased
30 by the given percentage based on rail increase in



1
2 costs, and the water carriers are permitted the same
3 percentage increase, as opposed to the same number of
4 cents per 100 pounds. Had that been done, the
5 water rate from Toronto to Fort William would have
6 done up $\$1.06\frac{1}{2}$ to $\$2.66$.

7 Q. Which is the 150 per cent, which was
8 the increase of the cost from rail since the Second
9 World War?

10 MR. STECHISHIN: Yes.

11 The rail rate from Fort William to
12 Winnipeg would be increased from $\$1.28$ to $\$3.20$.
13 The lake and rail would go from $\$2.34\frac{1}{2}$ to $\$5.86$. The
14 all-rail rate from Toronto to Winnipeg still at
15 150 per cent increase would be $\$6.69$, and the
16 differential would now be 83 cents.

17 Under the fourth method, which is the
18 method that actually was used, the water -- I should
19 start from the bottom, possibly -- the all-rail
20 rate Toronto to Winnipeg was increased by the 150
21 per cent, resulting in a rate of $\$6.69$. From that
22 $\$6.69$, the differential of 33 cents was subtracted,
23 leaving a lake and rail rate, Toronto to Winnipeg,
24 of $\$6.36$.

25 The rail rate from Fort William to
26 Winnipeg of $\$3.20$, and the water rate from Toronto to
27 Fort William then was increased from $\$1.06\frac{1}{2}$ to $\$3.67$;
28 or, in this case, 197 per cent, while the lake and
29 rail from Toronto to Winnipeg went up by 171 per
30 cent.



Method I

Each rate is increased by actual increase in costs.

	Before Increase	After Increase	Per Cent Increase
Water - Tor. to F.W.	106½	240	125%
Rail - F.W. to Wpg.	128	320	150%
L & R - Tor. - Wpg.	234½	560	139%
Differential	<u>33</u>	<u>109</u>	
A.R. - Tor. - Wpg.	267½	669	150%

Method II

Each rate is increased by average increase in costs.

Water - Tor. - F.W.	106½	261	145%
Rail - F.W. - Wpg.	128	314	145%
L & R - Tor. - Wpg.	234½	575	145%
Differential	<u>33</u>	<u>81</u>	
A.R. - Tor. - Wpg.	267½	656	145%

Method III

Each rate is increased by rail increase in costs.

Water - Tor. - F.W.	106½	266	150%
Rail - F.W. - Wpg.	128	320	150%
L & R - Tor. - Wpg.	234½	586	150%
Differential	<u>33</u>	<u>83</u>	
A.R. - Tor. - Wpg.	267½	669	150%



Method IV

The rail rate is increased and differential maintained.

Water - Tor. - F.W.	106 $\frac{1}{2}$	316	197%
Rail - F.W. - Wpg.	128	320	150%
L & R - Tor. - Wpg.	234 $\frac{1}{2}$	636	171%
Differential	<u>33</u>	<u>33</u>	
A.R. - Tor. - Wpg.	267 $\frac{1}{2}$	669	150%

MR. MAURO Q: Mr. Stechishin, as I see it, under this fourth method the rate that the water carriers are permitted to charge is in no way attached to the carriers' costs itself?

MR. STECHISHIN: None whatsoever.

Q. None whatsoever?

MR. STECHISHIN: It is designed to protect the increase in the rail rate.

Q. And as a matter of fact in the illustration that you have just referred to, while the rail rates went up 150 per cent the resultant increase in water carriers' rates under this method resulted in an increase of 197 per cent?

MR. STECHISHIN: That is correct.

Q. So that, not only were the basis for the fixed rate in no way reflecting the actual cost of the carrier, but the resultant rate structure permitted the water carrier to get a much larger increase than did the rail carriers?

MR. STECHISHIN: That is correct. I should clarify that in this last illustration I



1
2 follow the principle adopted by the Board right
3 through, and this method, No. 4, does not allow
4 for the changes which resulted from equalization of
5 the class rate scale, although the principle was
6 maintained all the way through, but some of the rates
7 were affected by the class rate equalization.

8 COMMISSIONER GOBEIL: How do you get
9 different differentials in the first three methods?

10 MR. STECHISHIN: What I have done here,
11 Commissioner Gobeil, is I increased the rail rates
12 by whatever increase method was suggested, and I
13 increased the water rate by whatever increase appeared
14 justified for the water carrier. The differential
15 was merely the difference between the two rates. By
16 subtracting the lake and rail rate from the all-rail
17 rate we arrived at the differential.

18 MR. MAURO: I think there what we are
19 trying to illustrate is that under the historical
20 development of lake and rail rates there was not a
21 fixed differential as such, but a differential
22 resulted from traffic movement and the cost
23 characteristics of the carriers themselves, but that
24 under the present method of a fixed differential
25 between lake and rail rates you have the result that
26 the actual percentage increases are greater in one
27 carrier than in another.

28 COMMISSIONER GOBEIL: Oh, yes.

29 MR. MAURO: Would you go on, Mr. Stechishin?

30 MR. STECHISHIN: The first method would



1 have been the most equitable since water rates would
2 then be based on the water carriers' costs and
3 requirements and would not bear any arbitrary
4 relationship to other modes of transportation. The
5 fourth method is the most inequitable since under
6 this method increases in water rates bear no
7 relationship to increases in water carriers' costs
8 and requirements. The Board elected to follow the
9 fourth method in all post-war rate increase cases.
10 Instead of applying an independently determined
11 percentage increase or limiting the water carriers
12 to the same percentage increase as granted to the
13 railways, the Board of Transport Commissioners, by
14 using the differential method of determining water
15 and rail rates, not only gave the water carriers
16 gratuitous increases, but gave them increases in a
17 greater percentage than to the railways who proved
18 their case.

19
20 MR. MAURO Q: Do you want to make any
21 comment on Table 10?

22 MR. STECHISHIN: This Table 10 on page
23 62 shows, or follows up, the rates that we discussed
24 earlier from 1938 up to the present time. These
25 are the actual rates, and to a measure they reflect
26 the equalization of rates which came in during this
27 period.

28 It shows that the increase in the rail
29 rate to Fort William from eastern Canada has gone
30 up by 117 per cent. That is the rate that the



1
2 shipper pays; the railways receive actually 145 per
3 cent because of the Bridge Subsidy, but the water
4 rate to Fort William has gone up from \$1.06 $\frac{1}{2}$ to \$3.97,
5 or an increase of 274 per cent.

6 The rates to Winnipeg show that the rate
7 that the shipper pays because of the Bridge Subsidy
8 has only increased by 125 per cent; the railways
9 themselves have received an increase of 152 per cent,
10 but the lake and rail rate has gone up by 142 per
11 cent.

12 I might just add here that a shipper who
13 had used the rail of this period would have found
14 his rates higher by 125 per cent, and the shipper
15 using lake and rail found his rates going up by
16 142 per cent.

17 The third list of figures on that table
18 is the same comparisons at Moose Jaw. Here, we
19 found that the all-rail rate has only increased by
20 112 per cent, which is lower than Winnipeg or
21 Fort William. The railways are receiving only 137
22 per cent more money on traffic to Moose Jaw, and
23 the lake and rail rate is 123 per cent higher than it
24 was in 1938.

25 COMMISSIONER ANSCOMB: Has that had any
26 effect in moving freight on lake and rail?

27 MR. STECHISHIN: Apparently it has. I
28 do not have this officially, but I am told by people
29 who are employed by the steamship companies that they
30 are finding it increasingly difficult to attract



traffic to the lake and rail method of transportation because the differential is not worth the additional time.

COMMISSIONER ANSCOMB: Thank you.

MR. STECHISHIN:

Table 10

Increase in Rates 1938 - 1959, Class 100 (First Class)
From A and B Points.

In Cents per One Hundred Pounds

<u>Rates to Ft. Wm.</u>	<u>Rail</u>	<u>Rail ex. Subsidy</u>	<u>Lake</u>
1938	199	199	106½
1959	431	487	397
Increase	232	288	291½
Percentage Increase	117%	145%	274%
<u>Rates to Wpg.</u>	<u>Rail</u>	<u>Rail ex. Subsidy</u>	<u>Lake & Rail</u>
1938	267	267	234
1959	601	674	567
Increase	334	407	333
Percentage Increase	125%	152%	142%
<u>Rates to Moose Jaw</u>	<u>Rail</u>	<u>Rail ex. Subsidy</u>	<u>Lake & Rail</u>
1938	369	369	336
1959	782	873	748
Increase	413	504	412
Percentage Increase	112%	137%	123%

141. Earlier in this submission it was demonstrated, by comparing the Toronto -Fort William rate, with the Fort William - Moose Jaw rate, that



1
2 the effect of the water competition was to reduce the
3 rate by 53 per cent initially, a percentage which was
4 later modified to 39 per cent. That is the Toronto
5 to Fort William portion of the rate was reduced by
6 that much.

7 142. Despite the fact that the railways
8 testified that the water competition was equally
9 pervasive in 1953, the Board of Transport Commissioners
10 in promulgating the equalized class rate scale
11 recognized this competition in a most peculiar manner.
12 The rate from Toronto to Fort William is now 100
13 per cent of the rate from Fort William to Moose Jaw
14 and not 39 per cent below as it was the day before
15 the order was issued. This would suggest that the
16 Board of Transport Commissioners had decided
17 competition no longer existed. However, the Board
18 also ruled that groups A and B which owed their
19 existence to water competition should remain intact
20 but in an amended form. Thus in the one order, the
21 Board of Transport Commissioners denied to western
22 shippers the primary benefit of competition in the
23 form of lower rates, and preserved for all eastern
24 shippers outside Toronto the benefit of competition in
25 the form of parity of rates.

26 143. Having apparently concluded that competition
27 should no longer affect the rail factor to Fort
28 William, at least from Toronto, the Board abolished the
29 basis of using one factor to the Lakehead and another
30 beyond, and substituted therefor a single factor



1
2 through rate based on the rail mileage from Toronto.
3 This in itself is not subject to criticism if the
4 purpose was to establish a "ceiling" rate not reflecting
5 competition. However, having established the ceiling,
6 the Board of Transport Commissioners then prescribed
7 that the lake and rail rate should be determined by
8 deducting differentials from this ceiling. Since
9 certain Canadian National Railway routes are
10 determined by using the mileage via Armstrong, the lake
11 and rail rate, perforce, is determined over an inland
12 route. Armstrong is not on the lakes at all. It is
13 up north of Port Arthur and Fort William.

14 144. The evidence shows that when the rates
15 reflected competition, that competition was felt at
16 all points west of the Lakehead in the same amount.
17 When the competition lessened, the increase in
18 rates was also the same amount at each point. We
19 shall now examine the impact of competition on existing
20 rates.

21 MR. FRAWLEY: I think I could assist the
22 Commission just at this point. There was a citation
23 to the Board of Transport Commissioners Judgment
24 which the witness has been referring to. It is
25 the Decision known as the Equalization Class Rates
26 Scale Judgment and Order of March 1, 1954, together
27 with notes and reasons for the said judgment issued
28 February 28th, 1955. It is to be found in Volume
29 XLIII of the Judgment Orders, regulations and
30 rulings, dated March 1, 1954.



1
2 MR. MAURO: Thank you very much, Mr.
3 Frawley.

4 COMMISSIONER MANN: While we are dealing
5 with citations, wasn't this case brought before the
6 Board of Transport Commissioners by the Winnipeg
7 Chamber of Commerce? Do you have a citation ready
8 for the record, Mr. Mauro?

9 MR. MAURO: I have not, Commissioner Mann,
10 but I certainly will put it on the record this
11 afternoon.

12 THE CHAIRMAN: Mr. McCormick I think fought
13 it?

14 MR. MAURO: And Mr. Stechishin was the
15 leading witness in that case.

16 MR. FRAWLEY: I found myself associated
17 at that time with the railways and the Canada
18 Steamship Lines, because Alberta would never accept
19 restoring to the freight rate structure the Fort
20 William arbitrary by which railway rates to western
21 Canada are broken over Fort William. I was going
22 to give you that citation myself, sir.
23
24
25
26
27
28
29
30



1
2 MR. MAURO: I have now the Judgment dated
3 February 2nd, 1959, appearing in Volume XLVIII, No. 21.

4 THE CHAIRMAN: J.O.R. 9.

5 MR. FRAWLEY: J.O.R. 9.

6 MR. MAURO: "In the matter of the appli-
7 cation of the Winnipeg Chamber of Commerce for an
8 Order directing the railway and water carriers under
9 the jurisdiction of the Board to remove alleged unjust
10 discrimination and undue preference in tariffs of
11 the said carriers on traffic between eastern and
12 western Canada."

13 MR. STECHISHIN: Table 11 at the top of
14 page 64 is prepared to show what impact would occur
15 on the present east-west freight rate structure if
16 the competition which we calculated earlier as having
17 forced the 39 per cent reduction and rates were still
18 pervasive sufficiently to compel a 39 per cent
19 decrease in rates.

20 In the first line the rail rate Fort William
21 is \$4.31. If this rate were reduced by 39 per cent
22 it would be then \$2.63 rather than \$4.31. That is
23 the all-rail rate. From that all-rail rate
24 we deducted the differential which I mentioned earlier
25 is now 34 cents, and that would leave a derived water
26 rate of \$2.30.

27 Then under (1) we have listed the published
28 lake and rail rate to Winnipeg of \$5.67, and a little
29 over to the left we have added the derived water rate
30 of \$2.30 to the actual rail rate from Fort William to



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2 Winnipeg of \$2.82, the total being \$5.12. The rate
3 to Winnipeg would then be 55 cents lower than it is
4 under the present method of rate making.

5 We have done the same under (2), coming up
6 with \$6.77, which, subtracted from the \$7.27, shows
7 that the Regina rate would be reduced by 50 cents, and
8 the same thing at Edmonton where the combined water
9 and rail portions would then total \$8.75 instead of
10 the existing rate of \$9.15, or a reduction of 40 cents.



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Table 11

Class 100, From Toronto

In Cents Per 100 Pounds

Rail rate to Fort William	431
Reduced by 39% same basis as formerly	263
Less differential	34
Water rate derived	230
(1) Published Lake and Rail Rate to Winnipeg	567
Derived water rate to Fort William	230
Rail rate Fort William to Winnipeg	<u>282</u>
	<u>512</u>
Difference	55
(2) Published Lake and Rail Rates to Regina	727
Derived water rate to Fort William	230
Rail rate Fort William to Regina	<u>447</u>
	<u>677</u>
Difference	50
(3) Published Lake and Rail rate to Edmonton	915
Derived water rate to Fort William	230
Rail rate Fort William to Edmonton	<u>645</u>
	875
Difference	40



1
2 145. This table shows that if the same degree
3 of competition were reintroduced into the rate structure
4 as is claimed exists by the railways, the class 100
5 rate to Winnipeg would be reduced by 55 cents, to
6 Regina by 50 cents and to Edmonton by 40 cents per
7 100 pounds. Conversely, it follows that because this
8 competition is not allowed to manifest itself, Winnipeg
9 is penalized 55 cents; Regina 50 cents and Edmonton
10 40 cents per 100 pounds.

11 I might add here that just recently the
12 Board of Transport Commissioners turned down an
13 application of a water carrier who proposed a rate
14 below that prescribed, and they were advised that they
15 would not be granted the licence unless they filed a
16 rate scale which was more consistent with that filed
17 by the present water carrier.

18 COMMISSIONER MANN: Doesn't that involve
19 the principle of not charging for the backhaul?

20 MR. STECHISHIN: That was the reason that
21 the Board gave. But they tried to put in a lower rate,
22 and they were not permitted to do that.

23 MR. MAURO: I think the connection with that,
24 Commissioner Mann, is the interesting fact that the
25 Board wanted to divide it both ways and the carrier
26 said if we get a good price going to the lakehead we
27 can take this cargo back at a lower rate.

28 MR. FRAWLEY: Have you got the reference for
29 that, Mr. Mauro?

30 MR. MAURO: It is the Upper Lake Shipping



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1
2 application.

3 MR. STECHISHIN:

4 146. Similarly, under the former more realistic
5 method of rate making, any reduction in inland rates
6 would have benefited all stations. The following
7 table shows that a 40 per cent reduction in rates
8 from the lakehead is ineffectual at Winnipeg, but
9 substantial at points west.

10 Now, what I am trying to do here is to show
11 that if a shipper were to bring in goods into the lake-
12 head by ship and then ship them by, say, truck to
13 points west at 40 per cent below the railway rate,
14 this is the benefit that the shipper would receive.
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Table 12

Class 100

Rates in ¢ per 100 Lbs.

(1) Normal rate Fort William
to Winnipeg

282

Reduced rate by 40%

169

Lake rate Toronto to Fort
William

397

Total

566

Lake and rail rate, Toronto to
Winnipeg

567

Difference

1

(2) Normal rate Fort William
to Regina

447

Reduced by 40%

268

Lake rate Toronto to Fort
William

397

Total

665

Lake and rail rate, Toronto
to Regina

727

Difference

62

(3) Normal rate Fort William
to Calgary

645

Reduced by 40%

387

Lake rate Toronto to Fort
William

397

Total

784

Lake and rail rate, Toronto
to Calgary

915

Difference

131

In this table it shows that the shipper
would pay \$1.69 plus the lake rate Toronto to Fort
William, of \$3.97, as opposed to \$5.67 if he didn't
get the 40 per cent reduction in the inland portion



1
2 of the movement. In other words, he would save one
3 cent.

4 Under (2) the rate would be reduced to
5 \$6.65 as opposed to the normal lake and rail of \$7.27,
6 and the shipper would benefit by 62 cents.

7 Under (3) if the rail rate from Fort William
8 to Calgary were reduced by 40 per cent the shipper
9 would benefit to the extent of \$1.31.

10 THE CHAIRMAN: Have you tried to put a
11 dollar mark on the saving to the shipper?

12 MR. STECHISHIN: Well, I have used a 40
13 per cent reduction.

14 THE CHAIRMAN: But how many dollars?

15 MR. STECHISHIN: I understand there are
16 about 600,000 tons moving into Winnipeg via lake and
17 rail. Now, how many tons more would move if you had
18 a better rate structure I can't begin to guess. We
19 would have to know how much the reduction was and
20 how much that reduction would increase the traffic.

21 MR. MAURO: Q. In other words, Mr.
22 Stechishin, this points up the situation that would
23 result in a more realistic rate structure as per-
24 vasive throughout the west, and not only at Winnipeg?

25 MR. STECHISHIN: Yes.

26 Q. And the real gainer in dollars and
27 cents is the Calgary shipper?

28 MR. STECHISHIN: Yes; the further inward
29 you go the more benefit there would be.

30 Q. Now, what are your recommendations under



1
2 this heading of the submission?

3 MR. STECHISHIN: Recommendations: Lake
4 and Rail Rates.

5 147. The province of Manitoba therefore recommends:

6 Firstly: That water carriers be required to apply
7 and show cause for any proposed rate in-
8 creases, and that in such applications the
9 rates be established on the financial require-
10 ments of the water carriers without refer-
11 ence to the rates of other modes of
12 transportation.

13 Secondly: That the through rate on a shipment carried
14 by more than one type of carrier should
15 reflect the relative rate characteristics
16 of each type of carrier to the extent
17 that each has participated in that move-
18 ment.

19 148 These recommendations, we submit, will
20 make possible the realization of national economic
21 policy in regard to the movement of goods by water
22 on the Great Lakes waterway system, particularly in
23 its effect on the economy of Manitoba and that of
24 the other prairie provinces.

25 MR. MAURO: Chapter II, Mr. Chairman,
26 Obligations and Limitations.

27 149. We would now direct the Commission's atten-
28 tion to a consideration of Clause (b) of your terms
29 of reference which reads as follows:
30



1
2 "(b) The obligations and limitations imposed
3 upon railways by law for reasons of
4 public policy, and what can and should
5 be done to ensure a more equitable
6 distribution of any burden which
7 may be found to result therefrom."

8 150. The need for a detailed review of these
9 obligations and limitations and of the measures re-
10 quired to ensure a more equitable distribution of
11 the resulting burdens is underlined by the fact that
12 Canadian railways are rapidly reaching the point, if
13 in fact they have not already reached it, where they
14 are not obtaining any increased revenues from in-
15 creases in freight rates and must now consider
16 obtaining an improvement in their revenue position
17 through reductions in costs rather than through
18 increases in freight rates. The very poor pros-
19 pects facing Canadian railways in obtainig additional
20 revenues through increases in the freight rates were
21 indicated in the following testimony by the President
22 of the Canadian National Railways before the House
23 of Commons Sessional Committee on Railways, Air Lines
24 and Shipping on March 29, 1960.

25 "Mr. Donald Gordon: . . . As I
26 have stated in the annual report the
27 increase in our freight revenues was
28 largely the result of the freight
29 rate increase authorized by the board
30 of transport commissioners in December



1
2 1958. The effective yield of freight
3 rate increases is rapidly diminishing,
4 and any further increases will more
5 and more be offset by the competitive
6 rate reductions which we must institute
7 to retain high-rated traffic."

8 (House of Commons, Sessional Committee on Railways,
9 Air Lines and Shipping Minutes of Proceedings and
10 Evidence, No. 1, Tuesday, March 29, 1960, page 24.)

11 "Mr. Chevrier: In that respect what is
12 the prospect for the future?

13 Mr. Gordon: The prospect of getting more
14 money?

15 Mr. Chevrier: Yes.

16 Mr. Gordon: I would say it is very poor
17 indeed. I think we have reached the
18 point where any further attempt to
19 increase freight rates will have the
20 result of reducing our traffic, to the
21 point where we are reducing the attrac-
22 tiveness of the railways as a trans-
23 portation tool and I think we have
24 almost reached the point of diminish-
25 ing returns. Of course, that is a
26 generalization. We have undoubtedly
27 reached the danger point."

28 (House of Commons, Sessional Committee on Railways,
29 Air Lines and Shipping Minutes of Proceedings and
30 Evidence, No. 1, Tuesday, March 29, 1960, page 125.)



1
2 Q. What is the position of the province
3 of Manitoba concerning this aspect of the Commission's
4 investigation?

5 MR. STECHISHIN:

6 151. We shall examine first the obligations and
7 limitations imposed upon railways by law for reasons
8 of public policy.

9 152. The Commission is making a very intensive
10 study of, and has received considerable evidence
11 on, the burden which the railways allege is imposed
12 upon them by the statutory grain rates. This ques-
13 tion of statutory rates on export grain is being
14 dealt with separately by other witnesses called
15 on behalf of the provinces of Manitoba and Alberta.
16 It is our intention here to discuss the limitations
17 existing at present with respect to abandonment of
18 services and abandonment of lines. Under the
19 Railway Act, limitations respecting the curtailment
20 or abandonment of services and the abandonment of
21 lines are imposed upon the railways by Section 168
22 of the Act which reads as follows:

23 "168. The company may abandon
24 the operation of any line of railway
25 with the approval of the Board, and
26 no company shall abandon the opera-
27 tion of any line of railway without
28 such approval. 1932 - 33 c. 47,
29 s. 1"

30 153. As is well known, in cases of application



1
2 by the railways for abandonment of services or lines,
3 even though the railways may prove conclusively that
4 the operations do result in deficits to the railways,
5 the Board of Transport Commissioners may deny the
6 application for abandonment on the basis of public
7 convenience or necessity. Since the railways
8 have but one major source of revenue, namely, revenue
9 from rail freight operations, any deficit resulting
10 from the operation of the railway must be made up
11 from this profitable service of the railway company.
12 In other words, the losses occasioned by any deficit
13 operation become a burden on the freight shipper. It
14 is our view that it is this type of "burden" and
15 "limitation" that must be considered under Term
16 (b) of the Commission's terms of reference.

17 154. As indicated above, the prevailing
18 concept governing rail management is that losses
19 resulting from deficit operations are met by the
20 revenues of profitable operations. The Canadian
21 Pacific Railway and the Canadian National Railways
22 now propose a material departure from this prevailing
23 concept. In relation to the carriage of grain
24 under statutory and related rates, they suggest as
25 follows:

26 Firstly: That the carriage of grain under
27 statutory and related rates has resulted
28 in a very large deficit to the railways.
29 Secondly: That they cannot recoup these deficits
30 from other freight traffic.



1
2 Thirdly: That the losses should not be met by
3 increased charges to the farmers but
4 should be subsidized by the federal
5 treasury.

6
7 155. The province of Manitoba has stated pre-
8 viously that the movement of export grain from
9 Manitoba is in fact compensatory. Evidence on this
10 phase of the inquiry will be submitted at a later
11 date. What we now suggest is that logic demands
12 a similar approach to all deficit operations of
13 the railways. In short, those operations of the rail-
14 ways which result in deficits should either be
15 abandoned or if they are found to be in the national
16 interest, the deficits incurred in their continuance
17 should be met by subsidy from the national treasury.
18 On the other hand, if the railways exercising their
19 managerial discretion, wish to maintain a deficit
20 service, not found to be in the national interest,
21 then we suggest that the cost of providing the
22 particular service should be removed from the
23 Classification of Accounts in the fixing of freight
24 rate levels.

25 156. The province of Manitoba would direct your
26 attention to those items which we submit are most
27 burdensome to the freight shipper, namely, passenger
28 and related services, commuter services and branch
29 line operations. With regard to what can and should
30 be done to ensure a more equitable distribution of



1
2 the burden imposed on the freight shipper by the
3 deficits incurred in providing these services and
4 operations, the province of Manitoba recommends as
5 follows.

6 Q. Firstly, would you deal with the deficits
7 occasioned by providing passenger services and related
8 services?

9 MR. STECHISHIN:

10 157. With regard to passenger services we have
11 been told that the railways will be making a sub-
12 stantive submission to this Commission at a later
13 date as to costs and revenues in providing these
14 services. The province of Manitoba may have a
15 further submission to make when this evidence has been
16 placed before the Commission. At present, we would
17 refer the Commission to the recommendations with
18 respect to passenger and related services as contained
19 in the submission of the province of Manitoba at the
20 regional hearing held in Winnipeg on February 8,
21 1960.

22 "Firstly: That the railways should continue
23 to achieve efficiencies by the
24 elimination of duplicate services
25 and by whatever other means are
26 available to them.

27 "Secondly: As to the actual net losses resulting
28 from trunk line passenger and related
29 services, if such services are deemed
30 to be in the national interest, then



1
2 these losses should be met from the
3 federal treasury. These losses for all
4 future purposes, and in particular for the
5 purpose of setting freight rates, should
6 be removed from the accounts of the
7 railways. The 'national interest' can
8 be determined by the Board of Transport
9 Commissioners. . ."

10 (Daily Transcript, Volume 29, February 8, 1960,
11 page 4252.)

12 Q. Secondly, what position does the
13 province take in regard to commuter services?

14 MR. STECHISHIN:

15 158. With respect to commuter services, the
16 position of the province of Manitoba has been set
17 forth as follows in the submission by Premier Roblin
18 to this Commission.

19 "These losses represent a unique
20 problem that must be approached with a
21 view to a particular solution. In the
22 United States an attempt is being made
23 by the municipalities and the railroads
24 concerned to solve this problem on a
25 cooperative basis. A similar approach
26 is necessary, we believe, to a solution
27 to the Canadian problem. This will
28 require discussion between represen-
29 tatives of the municipalities, pro-
30 vincial authorities and the railways.



1
2 The final decision, of necessity,
3 must rest on the particular facts in
4 each instance, both regional and fiscal.
5 The losses on commuter services should
6 be not a burden on the general freight
7 shipper nor on the federal treasury.
8 As in the case of general passenger
9 services, the ideal situation would
10 be one wherein commuter services
11 would yield sufficient revenue to
12 meet the fully distributed costs
13 of providing that service, but on
14 the assumption that the railways are
15 unable to impose the necessary level
16 of rates, we suggest to the Commission
17 that it recommend as follows:

18 Firstly: Unprofitable commuter services should
19 either be abandoned upon application by
20 the railways to the Board of Transportation
21 Commissioners, or

22 Secondly: Net losses on such services -- which we
23 define as revenue being less than out of
24 pocket costs for each particular ser-
25 vice -- should be underwritten by the
26 municipalities affected, and

27 Thirdly: That in future the Uniform Classification
28 of Accounts be varied so as to exclude
29 commuter service net losses for freight
30 rate making purposes."



(Daily Transcript, Volume 29, February 8, 1960,
pages 4252-3.)

Q. And thirdly, Mr. Stechishin, the
matter of branch line operations?

MR. STECHISIN:

159. The third matter of importance under
clause (b) of the Commission's terms of reference
is that of branch line operations. The views and
recommendations of the Government of Manitoba were
placed before the Commission in Premier Roblin's
submission at the hearings in Winnipeg.

"The problem confronting this Commission
in regard to branch line operations is
indeed a most difficult one. There
can be very little doubt that as a
result of many operations maintained at
present on branch lines, the railways are
obliged to offer and to maintain services
at less than their out of pocket costs
with the result that an additional burden
is placed on the general freight shipper.
This problem of branch line losses is
not a new one, in fact, one can trace
it almost to the inception of the
transcontinental rail lines in
Canada. Solution of the problem is
particularly difficult because of the
various interests involved. There
can be no doubt, however, that the



1
2 burden resulting from these operations
3 is particularly onerous on the shipper.

4 Construction of these branch lines
5 was a decision of management but the
6 present day costs of operating and
7 maintaining them have to be borne by
8 the freight shipper." . . .

9 (Daily Transcript, Volume 29, February 8, 1960,
10 pages 4244-5.)

11 ". . . There is in this problem of
12 branch line operations a multiple inter-
13 est. The railways are desirous of
14 minimizing their losses occasioned
15 by non-compensatory operations.

16 Similarly the freight shipper, who in
17 the ultimate analysis must bear the costs
18 of any non-compensatory services, has a
19 primary interest in seeing that various
20 operations are in fact compensatory.
21 From the purely financial viewpoint
22 this approach would appear irrefutable
23 but as we have already indicated the
24 operation of rail transportation facilities
25 in Canada was not predicated solely from
26 the viewpoint of railway profit. There
27 is the broader aspect of public conven-
28 ience and necessity.

29 This Commission is faced, therefore, with
30 the dual interest of the railways and



1
2 shippers desiring more profitable and
3 efficient operations on the one hand and
4 the particular area served by the railways
5 on the other hand, desiring to safeguard
6 its economic development. It is our
7 considered opinion that any solution must
8 have regard to the interests of all
9 parties. While such a solution will
10 not be completely satisfactory to any
11 of the interested groups it is a com-
12 promise in the best interests of all."

13 (Daily Transcript, Volume 29, February 8, 1960,
14 pages 4250-1.)

15 160. With respect to branch line operations,
16 Premier Roblin in his submission on behalf of the
17 province of Manitoba, recommended establishment of a
18 "Branch Line Trackage Maintenance Fund", the operation
19 of which he envisaged as follows:

20 "Our proposed scheme, which we have
21 entitled 'Branch Line Trackage Maintenance
22 Fund' would be established and operated
23 in a manner similar to the present East-
24 West Bridge Subsidy Scheme. The Fund
25 would be operated by the Board of
26 Transport Commissioners. The railway
27 would apply in the usual manner for
28 abandonment of branch lines and would
29 submit relevant cost data. The Board
30



1
2 would determine whether or not the particular
3 branch line operation was in fact in the
4 public interest. I emphasize that point.
5 If the Board's decision was negative, the
6 abandonment of the line would be ordered.
7 If the Board's decision was in the affirma-
8 tive, the losses experienced would be segre-
9 gated from the general revenue statement of
10 the railway and the Board would reimburse
11 the railway annually in an amount equal
12 to the cost of maintaining the trackage of
13 the branch line so determined to have
14 been in the public interest. The railway
15 would be required to re-apply each year,
16 thus allowing a proper check on its main-
17 tenance expenditures and also permitting
18 the Board to determine whether the opera-
19 tion was still in the national interest.
20 Annual application by the railways to the
21 Board would also permit interested parties
22 to inquire as to the continued efficiency
23 of the particular operation. The amounts
24 so received by the railway from the
25 Branch Line Trackage Maintenance Fund
26 would be applied, as in the case of the
27 present Bridge Subsidy, to a reduction in
28 the relative level of freight rates.

29 "Now, I would like to expand slightly
30 on that idea, if I may, because under this



1
2 proposal the railways would, as they do now,
3 compare the revenue and expenses of each
4 branch line on their system. Wherever
5 they come to the conclusion that a par-
6 ticular branch line was returning insuf-
7 ficient revenue to cover the cost of
8 operation they would apply to the Board
9 of Transport Commissioners for permission
10 to abandon that line.

11 "The Board of Transport Commissioners
12 would examine the railways' cost and revenue
13 figures to satisfy itself that the operation
14 was in fact unprofitable. If it was found
15 to be so, the Board of Transport Commis-
16 sioners would then determine whether it was
17 necessary or desirable in the public interest
18 to maintain the operation, and I suggest that
19 in many instances they would decide that
20 it is in the public interest to maintain that
21 operation. If the Board then concluded
22 that the line did not serve the public
23 interest it would authorize the abandonment.
24 If on the other hand the Board found the
25 operation did serve the public interest
26 despite the established losses, it would
27 order an annual payment from the public
28 treasury in an amount equal to the cost
29 of maintaining the 'Trackage' of the
30 branch line under investigation. The



1
2 term 'Trackage' is used here in the same
3 context as that in Section 468 of the
4 Railway Act.

5 "The money received by the railways
6 from the Branch Line Maintenance Fund is to
7 be applied to a reduction in the level of
8 non-competitive rates applying between all
9 stations in Canada in the same manner as that
10 presently in force under the \$20 million
11 subsidy.

12 "I would point out that the payments from
13 this fund would not be applied as a direct
14 subsidy to the railways but would be
15 applied to a reduction in the relative level
16 of the rates on the class and non-competi-
17 tive commodity traffic, the so-called captive
18 traffic. The benefit of this assistance
19 would be received by the shippers in the
20 form of a direct reduction in their total
21 freight bill.

22 "Under Section 468 of the Railway Act
23 a maximum amount of \$7 million annually has
24 been provided as the fund which will be
25 dispersed by the Board to the railways for
26 the annual cost of maintaining the trackage
27 between Sudbury and Fort William in the
28 case of the Canadian Pacific and between
29 Capreol and Fort William and between
30 Cochrane and Armstrong and the Canadian



1
2 National transcontinental lines. We are
3 advised that this sum of \$7 million was
4 arrived at as a reasonable estimate of the
5 maintenance cost of this trackage at the
6 time of the Turgeon Royal Commission's
7 recommendations on this matter in 1951.
8 We are of the view that a similar estimate
9 should be made in the present case to
10 establish the maximum annual payment by
11 the federal treasury into the Branch Line
12 Trackage Maintenance Fund. Unfortunately
13 we do not have the relevant information that
14 would enable us to make the estimate.
15 This lack of information underlines the
16 importance of having available adequate
17 data on branch line trackage and maintenance
18 costs. However, when a reasonable estimate
19 of branch line trackage annual maintenance
20 costs has been determined, the maximum
21 amount of the federal government's annual
22 contribution to a fund could be stipulated in
23 the applicable legislation."

24 (Daily Transcript, Vol. 29, February 8, 1960,
25 pages 4254-7)
26
27
28
29
30



1
2 Have you received any additional data
3 since the regional hearings in Winnipeg in February
4 which would permit a more detailed proposal?

5 MR. STECHISHIN: To date we have not
6 received any additional data that would permit us
7 to make a specific detailed proposal as to the
8 amount of the maximum annual payment by the federal
9 government into the Branch Line Trackage Maintenance
10 Fund. We shall estimate therefore the amount of the
11 annual payment on the basis of certain assumed figures.
12 While these figures may require modification, we are
13 of the view that the principle underlying our
14 calculation is sound. We suggest that the Commission
15 and your research staff, in cooperation with the
16 railways, could adjust these figures on the basis
17 of more accurate data.

18 162. As to the basis for establishing the
19 magnitude of the fund, this will not prove to be a
20 major problem. There is, as the Commission is aware,
21 already provision in Section 468 of the Railway Act for
22 establishment of a fund to meet the annual cost of
23 maintaining the line in what has become known as the
24 east-west bridge. Section 468 was enacted in accord
25 with the recommendation in the report of the Turgeon
26 Royal Commission for assistance from the federal
27 government to the railways, to meet the cost of
28 maintaining the main line trackage which constitutes
29 the east-west link or "bridge". It will be
30 necessary first to determine the overall branch line



1
2 mileage of the yardstick railway, the Canadian Pacific,
3 and then to determine the branch line mileage of the
4 Canadian National on the same basis so as to have
5 equitable treatment between the two railways. The
6 annual amount required in the Fund would then be
7 determined as follows: the total branch line trackage
8 for both railways deemed to be non-compensatory would
9 be ascertained and a stipulated sum per mile for
10 trackage maintenance would be established. In its
11 Memorandum in Respect of "Results of Cost Study" on
12 grain traffic moving at statutory and related rates
13 submitted to this Commission, the Canadian Pacific
14 Railway stated that the annual total cost of
15 maintenance, including the cost of money, per mile
16 of track in 1958 was \$2650. (Daily Transcript, Vol.
17 18, December 15, 1959, page 2617). Since the total
18 cost per mile of track for maintenance alone would
19 be somewhat less, we would estimate the cost of
20 maintenance per mile of track for branch lines at
21 approximately \$2500. The maximum annual amount of
22 the Branch Line Trackage Maintenance Fund could be
23 determined then on the basis of our estimate of the
24 cost of maintenance per mile of track of approximately
25 \$2500 multiplied by the mileage of non-compensatory
26 branch line trackage.

27 Q. How would the fund be operated or
28 administered?

29 MR. STECHISHIN:

30 163. The Fund would be operated and administered



1
2 by the Board of Transport Commissioners and payments
3 from the Fund to the railways would be applied, as
4 in the case of the \$20,000,000 federal freight rates
5 subsidy under the Freight Rates Reduction Act to
6 a reduction in the relative level of the class and
7 non-competitive commodity freight rates. The
8 railways would submit accounts to the Board of
9 Transport Commissioners as they are required to do in
10 connection with the \$20,000,000 freight rate subsidy
11 scheme and would be reimbursed from the Fund by the
12 Board.

13 THE CHAIRMAN: Have you any idea what the
14 size of the Fund would be?

15 MR. STECHISHIN: I think we follow that
16 up right now, Mr. Chairman.

17 164. The Province of Manitoba is of the view
18 that the Fund should be established for a reasonable
19 period of time, say a period of ten years, at the end
20 of which time the amount of the annual contribution
21 by the federal government to the Fund would be re-
22 assessed and the size of the Fund would be reduced
23 by an amount equal to the mileage abandoned between
24 1960 and 1970. For example, if this Commission
25 were to determine that the non-compensatory branch
26 lines in Canada total 3,000 miles and that the cost
27 of maintenance were 2,500 per mile of track, the
28 Commission would recommend that the Fund be
29 established at \$7,500,000.

30 That is 3,000 miles times 2500 per mile of



1
2 track. This would be the sum that the federal
3 treasury would place at the disposal of the Board of
4 Transport Commissioners, and in the initial period
5 it would be this sum that would be used to reduce the
6 present rates on class and non-competitive commodity
7 rates. The railways have advised that no new branch
8 lines are constructed without first obtaining
9 traffic guarantees from prospective users and
10 assessing the situation to satisfy themselves that
11 the branch lines in fact will be compensatory. There
12 is ^{little} likelihood, therefore, that the non-compensatory
13 branch line mileage determined by this Commission
14 would increase, except in the case of changing
15 traffic patterns. Similarly, the envisioned plan
16 would not perpetuate an uneconomic situation since
17 it would be re-assessed at the end of the initial
18 ten year period.

19 Q. The next matter we would now direct
20 to the Commission's attention is that of clause (c)
21 of the Terms of Reference which requires the
22 Commission to consider and report upon:

23 "(c) the possibilities of achieving
24 more economical and efficient railway
25 transportation."

26 168. At the regional hearings in Winnipeg on
27 February 8, 1960, the Premier of Manitoba, in
28 presenting the submission of the province under the
29 heading stated as follows:
30



"... It is not the purpose of the government of Manitoba critically to direct the railways as to how they should operate their systems. Our intention rather is to suggest that the existing situation should be analysed constructively, to see whether in fact the direction which is being followed by the railways might be varied or improved with a view to achieving a higher degree of efficiency."
(Daily transcript, Vol. 29, February 8, 1960, page 4262.).

167 . The Premier went on to state that the province of Manitoba was particularly interested in this matter since the freight shipper had been required to pay for the very large expenditures made by the railways in recent years for plant modernization. Reference was made to the material submitted to the Governor-in-Council by the eight provinces in their appeal of May, 1953. At that time the provinces referred to the very heavy outlays by the railways in recent years for maintenance of way, equipment, etc. which the railways alleged were required for improvement and modernization of their plant. These expenditures to and since 1953 total as follows in millions of dollars:

<u>1946</u>	<u>1948</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>
\$254.777	\$326,178	\$420.766	\$376.219	\$383.928



<u>1956</u>	<u>1957</u>	<u>1958</u>
\$430.286	\$417.786	\$404.545

The aggregate of these expenditures for the period 1953 to 1958 amounted to \$2,433,530,000. 168. The province of Manitoba feels that it is most important that expenditures totalling \$2,433,530,000 over a six year period require close analysis since, as previously stated, under the present "requirements formula" it is the freight shipper who must bear the burden of these expenditures.

169. Since the Premier's submission was presented in February, 1960, we had expected to receive from the railways material dealing with this important matter. To date there has been no such submission by the railways. The province of Manitoba felt that it would be remiss in its duty if we did not assist the Commission to the best of our abilities by attempting an analysis of the available statistics.

I would like Mr. Stechishin to put on record his analysis and the analysis of his associates of all of the available statistics.

MR. STECHISHIN:

170. One of the major difficulties, particularly in Canada, is to determine appropriate indices. We have used in this context those generally adopted in measuring the efficiency of Class I railroads in the United States. Volume II contains a number of tables which show a year by year compilation for the



1
2 ten year period 1949 - 1958 of the indices we have
3 selected.

4 MR. MAURO: This is in Volume II, Mr.
5 Chairman. It is headed "Dominion Bureau of Statistics
6 Data or Calculations Based thereon" and there are
7 seven pages which I would ask be marked as Exhibit
8 No. 153-K.

9 ---EXHIBIT NO. 153-K: Diagram II-7 "Dominion Bureau
10 of Statistics Data or Calculations Based Thereon".

11 MR. STECHISHIN: The statistics in Exhibit
12 153-K are taken from rail transport statistics
13 published by the Dominion Bureau of Statistics
14 in a number of volumes. What we have done here
15 is shown each of the last ten years, that is, 1949
16 to 1958 inclusive, and then in the righthand columns
17 we have the 1949-53 average and the 1954-58 average
18 to see if we could determine whether or not there
19 was any significant upward or downward change in each
20 of these statistics. Most of these are taken
21 directly from the text, the DBS, and some of the
22 figures here, however, are calculations based on
23 previously selected figures. In other words, we
24 may have taken one and divided one by the other
25 to arrive at a third figure. I will try to refer
26 to those made by us as opposed to those issued by
27 DBS where it arises.

28 Q. You have included in Table 13 a
29 summary of the seven pages that are in Exhibit 153-K?

30 MR. STECHISHIN: That is right.



1
2 The following is a summary of these tables. For
3 the purpose of this discussion we have selected for
4 comparison the years 1949 and 1958, the first and
5 last years of the ten-year period in question.

6 The first table, No. 13, deals with
7 railway plant and selected statistics. Under "Miles
8 of Track" we have taken the first main track from
9 DBS, yard track and sidings also from DBS, and the
10 total of all tracks direct from DBS. The two do
11 not add up to the third because in addition to
12 these figures shown here there is privately owned
13 track and double track.

14 The second phase is rolling stock which
15 is the railway cars and locomotives owned by the
16 railways. Here we have made a comparison of the
17 freight cars in service, the freight car capacity,
18 also from DBS, passenger cars in service and
19 locomotives in service. The third part of Table
20 13 deals with the employees and they are divided here
21 into the four major categories under "operating"
22 as shown by DBS, which is the general employees,
23 the employees in way and structures, the employees
24 in equipment and maintenance, and the employees in
25 transportation. This shows the total number of
26 employees in each of the categories in 1949 and 1958.

27 COMMISSIONER BALCH: What would "general"
28 be?

29 MR. MAURO: That is staff and clerical.

30 MR. STECHISHIN: Executive offices and



assistants, and then professional, sub-professional
and so on.

MR. MAURO: We were noticing that they
have had a reduction in everything but the general
office staff, and I was hoping Mr. Sinclair would
be here.

COMMISSIONER BALCH: Since 1958 they have
gone up further too.

MR. STECHISHIN:

TABLE 13

Railway Plant, Selected Statistics

<u>Miles of Track</u>	<u>1949</u>	<u>1958</u>	<u>Per Cent Change</u>
1. First Main track	42,978	44,125	✓ 2.7
2. Yard track and Sidings	10,437	11,534	✓ 10.6
3. Total all tracks	57,834	59,319	✓ 2.6
<u>Rolling Stock</u>			
1. Freight Cars in Service	177,614	196,893	✓ 10.9
2. Freight Car Capacity (Tons)	8,052,188	9,998,276	✓ 24.2
3. Passenger Cars in Service	6,224	5,733	- 7.9
4. Locomotives in service	4,627	4,823	✓ 4.2
<u>Employees</u>			
1. General	28,835	32,346	✓ 20.5
2. Way and Structures	39,521	37,010	- 6.4
3. Equipment	47,192	39,373	- 16.6
4. Transportation	59,564	52,150	- 12.4



5. Total 173,112 160,879 - 7.1
Total Investment (,000)\$3,702,768 \$5,981,972 61.6

171. Table 13 indicates that in terms of track miles, railway plant has experienced only a modest overall increase (2.7 per cent) although a substantial increase (10.6 per cent) occurred in yard and siding track mileage. With respect to rolling stock, it is noted that while the number of freight cars in service has increased by 11 per cent, the total capacity of these cars has increased by 24 per cent. The decline in number of passenger cars would seem to reflect the decline in passenger traffic. The substantial increase, (21 per cent), in the number of employees in the general category (executives, clerks and stenographers) which is contrary to the trend in all other categories would appear to reflect the tendency experienced by most industries in Canada during this period. The increase of 61.6 per cent in investment is greater than the increase in any other index shown for the ten year period.

COMMISSIONER ANSCOMB: I don't understand this "general" which Mr. Balch asked you about. Do you mean to tell me that includes these non-operators who are now asking for ---

MR. STECHISHIN: No. It is the head office staff primarily.

COMMISSIONER ANSCOMB: They are not in these figures at all?



MR. MAURO: No.

THE CHAIRMAN: They would be in way and structures.

COMMISSIONER ANSCOMB: But you have only got a total of 160,000 and there are supposed to be 130,000 of the non-operators.

COMMISSIONER BALCH: Well, the non-ops would include the shop staffs and car departments.

MR. MAURO: They would be reflected in every one of these categories -- some of the non-operating members of the union would be in way and structures and equipment.

COMMISSIONER ANSCOMB: Well, the whole of the non-operating staff is in that total of 160,879.

MR. MAURO: Yes.

COMMISSIONER ANSCOMB: The whole of the non-operating staff?

MR. STECHISHIN: That is right, yes.

TABLE 14

Selected Operating Statistics

	1949	1958	Per Cent Change
1. Revenue Tons Carries (,000)	162,292	174,200	7.3
2. Revenue tons miles (,000)	56,338,231	66,356,829	17.8
3. Revenue Passenger Miles (,000)	3,193,174	2,485,861	-22.2
4. Revenue Freight Carloads	5,980,513	5,584,013	- 6.6



1				
2	5. Loaded Car Miles			
3	(,000)	2,076,081	2,127,078	/ 2.5
4	6. Empty car Miles			
5	(,000)	934,222	1,128,340	/20.8
6	7. Total car miles			
7	(,000)	3,107,776	3,328,742	/ 7.1
8	8. Road Locomotive			
9	Miles (Freight)	89,005,127	71,970,306	-19.1
10	9. Switching Locomotive			
11	Miles (Freight)	35,619,741	32,765,775	- 8.0
12	10. Freight Train Miles	81,648,053	68,655,553	-16.0
13	11. Passenger Train			
14	Miles	45,680,009	40,545,723	-11.2

172 Table 14 indicates that the revenue tons
carried increased during the period by 7.3 per cent.
Revenue ton miles shows a greater increase at 18
per cent. Revenue passenger miles shows a substantial
decline of 22 per cent. The number of carloads has
declined slightly despite the increase in tonnage.
While loaded car miles only increased slightly, a
substantial increase (21 per cent) was experienced
in empty car miles. Locomotive miles, both road
and switching, showed decreases as did freight train
miles and passenger train miles.

MR. MAURO Q: Can you tell us at that
point why these empty car miles increased 21 per cent
in that period?

MR. STECHISHIN: I can only guess. I
think the railways could probably answer it. My guess
would be that there is a tendency today towards
specialized rail equipment which has almost a 100



1
2 per cent empty car movement, and that would certainly
3 increase the empty car mileage.

4 MR. MAURO: I notice there is mention of
5 that made in the number of the submissions you will
6 be receiving, Mr. Chairman -- this new demand for
7 specialized hopper cars and automobile cars.

8 COMMISSIONER BALCH: Yes, and transport cars.

9 MR. MAURO: They almost necessarily come
10 back empty.

11 MR. STECHISHIN:
12 173. We now turn to consideration of the changes
13 in relationships of certain of the above basic
14 statistics. Some of these relationships are found
15 in published statistics while others are calculations
16 which we have made. All published statistics are
17 those reported by the Dominion Bureau of Statistics
18 for all railways in Canada.

19 MR. MAURO Q: All of the foregoing
20 statistics up this point are DBS statistics, are they?

21 MR. STECHISHIN: Except the revenue freight
22 carloads. There is no record in DBS of the actual
23 number of carloads handled by the railways. They
24 have carloads originated, but there is no record
25 kept of the carloads received from U.S. connections
26 as spread from interchange between Canadian roads.
27 So, we had to estimate the total number of freight
28 carloads handled by the railways. This was done
29 by dividing the revenue ton miles by the loaded car
30 miles to get the average load per car and dividing



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(Mauro)

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1
2 that figure into the total number of tons handled to
3 get the number of carloads.

4 COMMISSIONER MANN: When you do that,
5 your revenue ton miles include interchanges from
6 the United States as well?

7 MR. STECHISHIN: Yes, and so would your
8 car miles.

9 COMMISSIONER MANN: Those are input figures
10 in that formula which you used?

11 MR. STECHISHIN: Yes.

12 COMMISSIONER MANN: Well, are you not
13 loading the figures ---

14 MR. STECHISHIN: Well, certainly, carloads
15 from the United States are handled by the Canadian
16 railways. I think they should be included.

17 COMMISSIONER MANN: Well, I thought you
18 said earlier you could not use them because they had
19 American ---

20 MR. STECHISHIN: No, they had them by tons
21 only.

22
23 ---Short recess.
24
25
26
27
28
29
30



THE CHAIRMAN: Order, please.

MR. MAURO: Q. You were at page 83,
Table 15, Mr. Stechishin. Would you carry on?

MR. STECHISHIN:

Table 15

Per Mile of Road

	<u>1949</u>	<u>1949</u>	<u>Per Cent Change</u>
1. Locomotive Miles	4,119	3,087	- 25.1
2. Revenue Tons Origin- ated	3,300	3,397	+ 2.0
3. Revenue Ton Miles	1,314,379	1,469,050	+ 11.8
4. Total Employees	2,993	2,712	- 9.4
5. Employee Hours, Way and Structures	1,695	1,306	- 22.9
6. Investment	\$64,024	\$101,151	+ 58.0

Table 15 contains statistics based on per
mile of road. It is of interest to note that loco-
motive miles per mile of road decreased by 25 per
cent while the number of revenue tons shows a
slight increase and ton miles increased by 12 per
cent. The total number of employees per mile of
road has been reduced by almost 10 per cent but
the working time of employees on way and structures
has been reduced significantly by 23 per cent.
Investment per mile of road shows an increase of
58 per cent.

Table 16 is statistics for per freight
train.



Table 16

Pr Freight Train

	<u>1949</u>	<u>1958</u>	<u>% Change</u>
1. Loaded Freight cars	25.43	30.98	+ 21.8
2. Empty Freight Cars	11.44	16.43	+ 43.6
3. Total Freight Cars	37.87	48.42	+ 27.9
4. Revenue Tons	690	967	+ 40.1

175 This table indicates that for every one per cent increase in the number of loaded cars per freight train there was an increase of 2 per cent in the number of empty freight cars. Expressed in different terms, for every $5\frac{1}{2}$ additional loaded cars the railways are hauling five empty freight cars per train. The revenue tons per freight train have shown a substantial increase of 40 per cent during the period.



Table 17

Per Unit of Rolling Stock

	<u>1949</u>	<u>1958</u>	<u>% Change</u>
1. Loaded Tons Per Car Mile	29.65	32.35	+ 9.1
2. Annual Tons per Car	913.73	884.74	-3.2
3. Ton Miles per Car	317.195	337.020	+ 6.3
4. Annual Loads Per Car	33.67	28.36	-15.8
5. Days per Car Load (Turn Around Time)	10.84	12.87	+ 18.7
6. Car Miles Per Car Day (Loaded and Empty)	47.97	48.32	- 3.4
7. Locomotive Switching Miles per Carload	5.96	5.87	- 1.5
8. Tractive Power Per Locomotive (Pounds)	41,923	52,095	+ 24.3
9. Ton Miles per Locomotive	12,175,973	13,758,413	+13.0
10. Ton Miles per Lb. of Tractive Power	290.43	264.10	-9.1
11. Train Miles Per Locomotive Day	75.39	62.03	-17.7

176. Table 17 indicates that the number of tons per car mile has increased by nearly 10 per cent but that the total tons per year per car in service has declined by 3.2 per cent; however, the annual ton miles per car does show a small increase. The reduction in annual tons per car can be attributed to the increase in the turn around time. The average turn around time, which is the



time from one load to the next load, has increased by two full days during the ten-year period resulting in a reduction of 16 per cent in the annual loads per car. The average freight car only travelled 48 miles per day in 1949 and in 1958 this had been reduced to some 46 miles per day. Miles of switching per carload has not shown a significant change during the period.

177. The tractive power per locomotive has increased by 24 per cent but the annual ton miles per locomotive has only increased by 13 per cent. A combination of these two statistics reveals that the ton miles per pound of tractive power has declined by 9 per cent. The substantial increase in tractive power without a corresponding increase in total ton miles offered, or a reduction in the number of locomotives in service could only result in an increase in the unused capacity of each locomotive. This is indicated by the decline of 18 per cent in the number of train miles per locomotive day.

Utilization of Rolling Stock and Employees.

178. Calculations have been made to compare the effective utilization of locomotives, freight cars and employees in terms of revenue tons carried and ton miles. These calculations follow:



Table 18

	<u>1949</u>	<u>1958</u>	<u>% Change</u>
1. Tons Per Car	913.7	884.7	-3.2
2. Tons Per Locomotive	35,075	35,704	+1.8
3. Tons Per Employee	937	1,083	+15.6
4. Ton Miles Per Car	317,195	337,020	+6.3
5. Ton Miles Per Locomotive	12,175,973	13,758,413	+13.0
6. Ton Miles Per Employee	356,187	428,361	+20.3

This table shows the revenue tons per car -- it doesn't say revenue tons per car on the table. It should probably be amended to say "revenue" -- it should be "revenue tons per car"; "revenue tons per locomotive"; and so on.

The revenue tons per car have declined from 913.7 in 1949 to 884.7 in 1958.

Q. That column in the left should be entitled "Revenue"?

MR. STECHISHIN: It should be "Revenue tons". In each case, it is revenue tons, and these are figures per year.

The tons per locomotives has only increased by 1.8 per cent; the tons per employee has increased by 15.6 per cent; the ton miles per car has increased by 6.3 per cent; the ton miles per locomotive, by 13 per cent; and the ton miles per employee, by 20.3 per cent.



179. The following table has been prepared to demonstrate the extent to which the railways could reduce the number of cars in service if the cars were loaded one ton heavier on the average. All calculations are based on 1958 data.

Table 19

1. Annual tonnage per car	885
2. Number of cars required (Total tons, 174,200,000 divided by 885)	196,836
3. Number of trips per car per year	28
4. Therefore, at 1 ton more per trip annual load is	913
5. Number of cars required (174,200,000 divided by 913)	190,800
6. Reduction in car inventory	6,036
7. At 5 tons more per trip, annual load is (885 - 149)	1,025
8. Number of cars required (174,200,000 divided by 1,025)	169,951
9. Reduction in car inventory	26,885

We started here with the first figure, taken from the previous table, of annual tonnage per car: 885. The number of cars required is the total -- 174,200,000 divided by 885 -- Table 13 on page 80 -- shows that this is just about the same number: 196,893 in actual service, 196,836 required to perform the service.

The number of trips per car per year is 28. Therefore, if each car carries one more ton for



1
2 each trip it made, it would be an additional 28 tons
3 per car; or 885 plus 28,918.

4 The number of cars required at 913 tons per
5 year would be 190,800, resulting in a reduction in
6 car inventory of 6,036 cars.

7 Now, if instead of taking one ton per car-
8 load, they took five tons more, the annual load per
9 car would then increase from 885 to 1,025 tons per
10 car per year.

11 On that basis, the number of cars required
12 would be 169,951, or a reduction in the car inventory
13 of 26,885 cars.

14 THE CHAIRMAN: Are you suggesting that
15 should cut down the number of cars?

16 MR. STECHISHIN: Yes, if they loaded them
17 more heavily.

18 COMMISSIONER ANSCOMB: How are you going
19 to do that in actual practice?

20 Supposing I am going to ship a car at the
21 minimum or maximum or whatever it is; I have an
22 order from John Brown for so many cases of stuff, and
23 I take the car -- how are you going to compel me
24 to change it or increase it?

25 MR. MAURO: I think the question is very
26 valid, Commissioner Anscomb, and later on under other
27 related matters the province of Manitoba is suggesting
28 such matters as incentive rates for heavier loads.

29 COMMISSIONER MANN: Do you couple with that
30 any changes in the classification of carload minimum



1
2 rates?

3 MR. STECHISHIN: That is also dealt with
4 later on in the brief.

5 MR. MAURO: It is completely bound up with
6 it, Commissioner Mann.

7 MR. STECHISHIN:
8 180. A further calculation has been made of the
9 extent to which the railways could reduce the number
10 of cars in service if the average time between trips
11 were to be reduced from 13 to 12 days, or by one day.

12 MR. MAURO: Q. You have already calculated,
13 Mr. Stechishin, from the DBS statistics that the
14 average trip was 30 days?

15 MR. STECHISHIN: That is correct, and
16 if we reduce this to 12 -- there are two ways to in-
17 crease car utilization: either load them heavily or
18 have them make more trips per year.

19 COMMISSIONER GOBEIL: I have been told that
20 in the United States if you have a heavier carload of
21 60 tons, or 120,000 pounds, that you have a reduction
22 of 20 per cent. Would you know if that is true?

23 MR. STECHISHIN: Oh, I think that would
24 follow. We show here that ---

25 COMMISSIONER GOBEIL: Twenty per cent in
26 the freight rate?

27 MR. MAURO: Yes, that would be under the
28 incentive rates.

29 MR. STECHISHIN: Oh, that would be under the
30 incentive rates. It is not true in all cases, but



1
2 there are a lot of cases where such rates are in existence.

3 THE CHAIRMAN: You would fit this in with
4 the boxcar situation of the pools?

5 MR. MAURO: Well, it is hard to estimate it,
6 Mr. Chairman, because there is no breakdown here of the
7 classification of cars. Say, where you get into the
8 specialized cars, you have a unique situation where it
9 would have to be dealt with in a particular manner
10 because we said there is only one-way movement; you
11 are going to get a heavy empty return in your specialized
12 cars, regardless of what you do, even taking into
13 consideration peak load periods of grain movement.
14 Something might be done to result in a better utiliza-
15 tion of per unit on the rails. This is receiving a
16 considerable amount of attention in the United States.
17 I was very impressed with Professor Nelson's recent
18 book, where he mentioned that while there was this
19 great interest in motive power and speed, the average
20 train speed is not appreciably higher. They were
21 not getting more trips per year.

22 THE CHAIRMAN: This would mean about 15 per
23 cent less cars?

24 COMMISSIONER BALCH: In figuring out the
25 cars, what about the foreign cars that are coming in?
26 Would you consider the foreign cars that are coming
27 in -- well, the foreign cars coming into this country
28 are the foreign cars that are loaded -- is that included
29 in that, or just Canadian National and Canadian
30 Pacific cars?



MR. STECHISHIN: That is treated as an additional carload in our calculations, Commissioner Balch, because there was no way of separating foreign cars from domestic cars in that manner, and it is still a carload; and in many cases even a foreign car coming into Canada, the minimum weight going into that car might be determined by the Canadian receiver of the goods, and usually is, as a matter of fact.

This does point up the fact that in the United States their waybill analysis shows in relation to commodities, as well as the type of cars and weights in each different type of car, their statistics are much more comprehensive and the questions asked here could have been asked if we had the American sources of information on Canadian traffic.

Table 20

1.	Tons per car per year	885
2.	Tons carried per trip	31.6
3.	Annual trips at 13 days per trip	28
4.	Annual trips at 12 days per trip	30.5
5.	Tons per car per year at 30.5 trips	964
6.	Number of cars required (174,200,000 divided by 964)	180,705
7.	Reduction in car inventory	16,131

Table 20 shows the annual tonnage per car at 885 and the tons carried per trip is 31.6. That is 13 trips, 885 tons for the total of the year was



1
2 31.6 tons per trip. The annual trips at 13 days per
3 trip is 28. If we cut that 13 days down to 12 days
4 per trip it would increase the number of trips per
5 year to 30.5 instead of 28. The tons per car per
6 year -- this is without increasing the load -- at
7 30.5 trips would be 964 tons, as opposed to 885.
8 The number of cars required would be reduced or would
9 be calculated at 180,705. Subtracting that 180,705
10 from the actual number of cars required, you get the
11 196,000. The reduction in car inventory flowing
12 from a reduction in the number of days per trip from
13 13 to 12 would be 16,131 cars saved by just cutting
14 one day off the round trip.

15 THE CHAIRMAN: There is some relationship
16 between this table and merger?

17 MR. STECHISHIN: Yes, we will deal with that
18 later on.

19 COMMISSIONER ANSCOMB: What is this 174,200,000

20 MR. STECHISHIN: That is the total number of
21 tons that were handled by the Canadian railways. That
22 appears on Table 14 -- Revenue tons carried; the first
23 line, 174,200,000.

24 MR. MAURO: Carry on, Mr. Stechishin.

25 MR. STECHISHIN:
26 181. This large reduction in the number of cars
27 required can be appreciated when it is realized that
28 the average daily running time per freight car is
29 only 2 hours and 20 minutes. The following table
30 has been prepared to show the disposition of car time.



Table 21

Disposition of Car Time

	<u>1949</u>	<u>1958</u>	<u>% Change</u>
1. Loaded car miles per car	11,689	10,803	-7.6
2. Loaded Running Hours per car (Car Miles / Train Speed)	N.A.	553.43	---
3. Loaded Running Car Days per Car	N.A.	23,060	---
4. Empty Car Miles Per Car	5,260	5,731	+9.0
5. Empty Running Hours Per Car (Car Miles / Train Speed)	N.A.	293.60	---
6. Empty Running Days Per Car	N.A.	12,233	---
7. Days in Terminals (Balance of time)	N.A.	329,707	---
<u>Per Cent Distri- bution of Time</u>			
8. Per Cent Loaded Running	N.A.	6.3%	---
9. Per Cent Empty Running	N.A.	3.4%	---
10. Per Cent in Terminals	N.A.	<u>90.3%</u>	---
		<u>100.0%</u>	

Table 21 shows that the per cent of loaded running time is 6.3 and if you divide that into 24 you will have the figure we have just given. Per cent empty running, 3.4 per cent, and per cent in terminals, 90.3 per cent. That is the disposition of the railway cars during the day.



1
2 MR. MAURO: The next item we wish to
3 cover, Mr. Chairman, is that referring to the Canadian
4 National - Canadian Pacific Act of 1933.

5 182. In the province's submission before this
6 Commission in February, 1960, dealing with this matter
7 the following appears:

8 " The province of Manitoba is also
9 interested in what action has been taken
10 by the railways under the provisions of
11 the Canadian National - Canadian Pacific
12 Act, 1933. The principal objective of
13 this legislation is to enable the railways
14 through co-operative measures to effect
15 economies.

16 MR. MAURO: The objective of that Act, which
17 appears in Chapter 33 of the Statutes of
18 Canada, 1932-33, Mr. Chairman, is clearly
19 set forth in Section 16 (1) where the
20 section reads:

21 'The National Company...and the Pacific
22 Company...are, for the purposes of effecting
23 economies and providing for more remunerative
24 operation directed to attempt forthwith
25 to agree and continuously to endeavour to
26 agree, and they respectively are, for and
27 on behalf as aforesaid, authorized to
28 agree, upon such co-operative measures,
29 plans and arrangements as are fair and
30 reasonable and best adapted (with due



1
2 regard to the equitable distribution
3 of burden and advantage as between them)
4 to effect such purposes.'
5 They are further directed that whenever
6 they do so agree they shall endeavour to
7 provide through negotiations with
8 representatives of the employees so
9 affected as part of such measure, plan or
10 arrangement, or otherwise, for fair and
11 reasonable apportionment as between the
12 employees of the Canadian National Railways
13 and the Canadian Pacific Railways
14 respectively of such employment.

15 A. In 1949 during the Turgeon Commission
16 hearings certain information on joint
17 cooperative projects for the period 1933
18 to 1949 was tabled; this information appears
19 as Appendix A, at pages 224 to 227 of the
20 report. We have requested both railways
21 that they advise us as to what action has
22 been taken since that date under the Act.
23 The railways have advised that they are
24 unable at this time to prepare the
25 information but that it would be
26 forthcoming. At a later date when this
27 information has been received we will have
28 further comments to make on this particular
29 matter.

30 THE CHAIRMAN: I may say that the Commission



1
2 has sought it too." (Daily Transcript,
3 Vol. 29, February 8, 1960, pages 4267-8-9).
4 183. Under date of November 10, 1959, the
5 province of Manitoba requested the following information:

6 "Statement 1 -

7 Joint Co-Operative Projects in Effect
8 as of January 1, 1949.

9 Statement 2 -

10 Line Abandonment Projects Approved by
11 Board of Transport Commissioners but
12 Not Effective.

13 Statement 3 -

14 Line Abandonment Projects Considered
15 by Board of Transport Commissioners
16 but no Order Issued.

17 Statement 4 -

18 Line Abandonment Projects Recommended
19 by Joint Co-operative Committee but
20 Disallowed by the Board of Transport
21 Commissioners.

22 Statement 5 -

23 Projects Recommended but not
24 Proceeded with.

25 Statement 6 -

26 Line Abandonment Project Study
27 Co-operatively but Ultimately Proceeded
28 with as Exclusive Projects.
29
30



Statement 7 -

Line Abandonment Projects Recommended
but Subsequently Found to be
Inadvisable Because of Increasing
Industrial Development in the Territory.

Statement 8 -

Projects Found to be Uneconomical.

Statement 9 -

Projects on which Study was Interrupted
Owing to War Activities.

Statement 10 -

Other projects which have Received Study.

I have been requested to obtain from you
revised statements bringing the subject
matter up to date. It would be appreciated
if you could send the Commission no less
than three copies of either additions to
the above referred ten statements or
reissues of these statements which ever is
most convenient for you.

This material is required in the
presentation of the Manitoba case before
the McTague Royal Commission."

184. Under date November 23, 1959, the Canadian
National Railways acknowledged receipt of our request
and advised as follows:

"Information concerning this
matter raised by you is being prepared for



1
2 presentation to the Royal Commission
3 when it commences to deal with the general
4 matters which are before it. We will be
5 pleased to let you have that information
6 just as soon as it is available."

7 185. Under date November 27, 1959, the Canadian
8 Pacific Railway advised as follows:

9 "Preparation of the large amount of
10 material which we have filed with the
11 Commission regarding the statutory grain
12 rates and information which we have
13 supplied at the request of consultants
14 employed by the grain trade and western
15 provinces has made it impossible for us
16 to deal with a number of matters regarding
17 other aspects of the Commission's
18 inquiry. Accordingly I have marked your
19 letter up for consideration at a later
20 date."

21 186. Nothing further was received by the
22 province of Manitoba touching upon this matter and
23 under date of August 4, 1960 a further request was
24 directed to the railways referring to the earlier
25 correspondence.

26 187. By letter dated August 8, 1960, the
27 Canadian Pacific Railway advised as follows:

28 "As the transcript of the proceedings
29 shows, I have informed the Commission that
30 Canadian Pacific would include in its



1
2 further substantive submissions reference
3 to the Canadian National - Canadian Pacific
4 Act of 1933. This material will be
5 available when the Company files its
6 further data, as directed by the Commission,
7 next month.

8 I have also informed the Commission
9 in accordance with my instructions that
10 since 1950 there have been no projects
11 completed under the Canadian National -
12 Canadian Pacific Act of 1933. However,
13 the achievement of economies through co-
14 operative measures outside the Act have
15 been undertaken and completed. The
16 example I have in mind is the discontinuance
17 of passenger train service on Canadian
18 Pacific between Winnipeg-Yorkton-Saskatoon-
19 Edmonton, leaving rail passenger service in
20 this area to the dominant rail passenger
21 carrier - Canadian National."

22 188. Under the same date the Canadian National
23 Railways advised:

24 "This legislation was enacted at
25 the depth of the depression in the early
26 nineteen-thirties. It is Canadian
27 National's view that it has served its
28 purpose in that the railways were able to
29 enter into certain pooling agreements
30 and other arrangements at that time which



1
2 enabled them to make substantial savings.

3 Since 1950 the railways have found
4 that they can effect substantial economies
5 by acting independently or in cooperation
6 with each other without proceeding under
7 this legislation. A good example of
8 such cooperation is the joint committee
9 recently established by Canadian Pacific
10 and Canadian National to review all facets
11 of passenger train services.

12 The establishment of such a committee
13 is a recognition of the developments of
14 recent years which make it evident that
15 the public is not prepared to support all
16 the existing passenger services provided
17 by both companies. An attempt will be
18 made to eliminate unnecessary competitive
19 services wherever possible. Both railways
20 are opposed to further pooling of
21 passenger trains on the pattern now
22 operated, but are hopeful that agreement
23 can be reached in respect of area
24 withdrawals so that the railways which is
25 naturally dominant will have responsibility
26 for necessary services."

27 MR. MAURO: We have copies of that
28 correspondence, Mr. Chairman, which, since we
29 referred to it, I think should be filed as an exhibit.
30 Exhibit 155.



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(Mauro)

--- Exhibit No. 155: Copies of Correspondence
referred to.

MR. MAURO Q: Now, Mr. Stechishin, do
you have anything further to add in connection with
the Canadian National - Canadian Pacific Act besides
these comments?

MR. STECHISHIN:
189. These comments contained in the above
correspondence with reference to the ~~Canadian~~ National -
Canadian Pacific Act are particularly interesting in
the light of the conclusions reached by the Turgeon
Commission whose report is dated February 9, 1951 -- and
that is No. 4 on page 223 of that report.

"4. The possibility of making further
economies is restricted by the growth which
has taken place in the volume of traffic;
but the importance of preventing extravagant
competition remains. No one appearing
before this Commission recommended or
favoured the repeal of the Act." (underlying
ours). (Report of the Royal Commission on
Transportation, Ottawa, February 9, 1951,
page 223).

190. From the above correspondence it would
appear that the Canadian National Railways had
decided a year prior to the report of the Turgeon
~~Commission~~ that they could "effect substantial
economies.....without proceeding under this



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2 legislation." If as the railways now allege
3 nothing has been accomplished since 1950 under this
4 Act and further that they have no intention of
5 adhering to the requirements of the Act, then we
6 submit that the railways should present to this
7 Commission evidence that would warrant repeal of this
8 legislation. Failing this, we submit that the
9 railways should be required to act in accordance with
10 both the spirit and the letter of this statute.

11 191. In any consideration of this matter, we
12 would draw to your attention the conclusion of the
13 Turgeon Commission wherein they point out the
14 important dual interest in this legislation.

15 "5. Under present conditions, shippers
16 have a direct interest in economies in
17 railway operations which they did not
18 have in the 1930's. At that time the
19 emphasis had been on economies since it
20 was not possible to increase rates,
21 whereas during the last few years with
22 increased volume of traffic and higher
23 operating costs rates have been increased
24 to bring railway revenues up to appropriate
25 standards. Shippers or their
26 spokesmen have therefore raised the
27 question of whether full use is being
28 made of the Act." (Report of the
29 Royal Commission on Transportation,
30 Ottawa, February 9, 1951, page 223.)



1
2 MR. MAURO: I would like to refer briefly
3 to the statement of Premier Roblin appearing in
4 volume 129, page 4267 of the daily transcript where
5 the Premier states:

6 "In any consideration of the problem of decreased
7 unit utilization of rolling stock, numerous matters
8 must be appraised. Among these are the problem of
9 terminal delays, the question of whether or not present
10 demurrage rules have become outdated, the need for new
11 and improved passing tracks in conjunction with Central
12 Traffic Control, and the question of whether or not
13 the present minimum weight requirements require revision.
14 These are problems which are not unique to the
15 Canadian scene, but are problems which face the railways
16 in various parts of the world. All of these matters
17 have to be fully considered before a solution can be
18 defined. At this time, we only wish to point out
19 that in our opinion there is a need for continuing
20 efficiencies in the operation of Canadian railways
21 and that the situation requires reappraisal."

22
23 Q. Mr. Stetchishin, have you anything
24 further to add to Premier Roblin's statement?

25 MR. STETCHISHIN:

26 192. It is the submission of the government
27 of Manitoba that in addition to the efficiencies
28 in railway operations which can be achieved through
29 technological improvements, there are a number of
30 possibilities for achieving more economical and
efficient operations through adjustment of the freight
rate structure in order to encourage greater
utilization of existing facilities. Tables 19 and
~~20 -- that is the~~ ones showing the savings that are
possible -- have indicated the extent to which greater
utilization of existing facilities could benefit the
railways. These possibilities include: rates based



1
2 on cars rather than on cents per 100 pounds; reduced
3 rates for heavier loading; and rewards for prompt
4 release of cars. We shall now discuss how each of
5 these means can encourage greater utilization of
6 existing railway facilities.

7 COMMISSIONER ANSCOMB: Don't you agree
8 there that greater demurrage instead of a lesser one
9 would keep the cars moving faster?

10 MR. MAURO: We are going to be suggesting
11 a proposal that the demurrage rules are a negative
12 one instead of a positive one. Why not reward a
13 party for the earlier release of a car?

14 THE CHAIRMAN: You mean to reverse it?

15 MR. MAURO: Yes: that the demurrage rules
16 at the present time are completely negative and
17 there might be a two-way street here which might
18 be looked into.

19 Q. The first item you are going to deal
20 with, Mr. Stechishin, is rates per carload?

21 MR. STECHISHIN:

22 193. Although railway rates almost invariably
23 are based on cents per 100 pounds, the cost unit of
24 operations is the carload. The cost per 100 pounds
25 is then determined by dividing the cost per car by the
26 weight of its contents. An analysis of the cost
27 data prepared by the Interstate Commerce Commission
28 in the United States indicates that the out-of-pocket
29 costs of moving a heavily loaded car do not vary
30 proportionately from the costs of moving a lightly



loaded car the same distance. The following tables have been prepared to illustrate the extent of this variation:

Table 22

Terminal Costs in Dollars per Car.

<u>Pounds Per Car</u>	<u>Terminal Cost</u>	<u>Load Factor @ .333¢ per cwt.</u>	<u>Out of Pocket Terminal Cost</u>
10,000	\$ 61.22737	\$.333	\$61.56037
20,000	"	.666	61.89337
30,000	"	.999	62.22637
40,000	"	1.332	62.55937
50,000	"	1.665	62.89237
60,000	"	1.998	63.22537
70,000	"	2.331	63.55837
80,000	"	2.664	63.89137
90,000	"	2.997	64.22437
100,000	"	3.330	64.55737
110,000	"	3.663	64.89037
120,000	"	3.996	65.22337

Data based on Box Cars in average weight trains,
Western District, Rail Carload Cost Scales by
Territories for the year 1958.

I.C.C. Statement 5-59.

These are taken directly from I.C.C.
statistics and this Table 22 shows for a 10,000
pound car the average out-of-pocket terminal cost
is \$61.56037; and if you had a 120,000 pounds in
the car the average terminal out-of-pocket cost



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would be only \$65.22337, indicating a very slight increase in the cost despite a very heavy increase in the tonnage.

Table 23

Line Haul Costs in Cents per Car per Mile

Pounds Per Car	Line Haul Cost ¢	Load Factor @ .01094 cwt. ¢	Less Inter- change ¢	Out of Pck. Line NA Haul Cost ¢
10,000	13.86544	1.094	1.66403	13.29541
20,000	"	2.188	"	14.38941
30,000	"	3.282	"	15.48341
40,000	"	4.376	"	16.57741
50,000	"	5.470	"	17.67141
60,000	"	6.564	"	18.76841
70,000	"	7.658	"	19.85941
80,000	"	8.752	"	20.95341
90,000	"	9.846	"	22.04741
100,000	"	10.940	"	23.14141
110,000	"	12.034	"	24.23541
120,000	"	13.128	"	25.32941

Data based on Box Cars in average weight trains,
Western District, Rail Carload Cost Scales by
Territories for the year 1958.
I.C.C. Statement 5-59.

Table 23 shows the same thing, only it is in the line haul movement instead of the terminal movement; and for a 10,000 pound car the out-of-pocket line haul cost is 13.29541 cents, and for a 120,000



1
2 pound car it is 25.32941 cents per car per mile.

3 Q. So while you are increasing the
4 capacity twelve times, you are only increasing the
5 cost twice.

6 MR. STECHISHIN: Yes.

7 COMMISSIONER BALCH: In terminal costs
8 now would that also mean a siding where you are
9 unloading a car, or does it just mean the terminal?

10 MR. STECHISHIN: No, it would include
11 the siding as well. It is terminal as opposed to
12 moving between terminals, and anything that takes
13 place within the terminal is a terminal cost.

14 COMMISSIONER BALCH: Referring back
15 to the 90.3 per cent, that would be the same?

16 MR. STECHISHIN: Oh, yes.

17 COMMISSIONER BALCH: It isn't only
18 congestion in the terminal, it is all along the line.

19 MR. STECHISHIN: Actually the line haul
20 movement or time, and then the balance of the time
21 would be in the terminal, whether in the siding or
22 in the switchyard, and the same thing applies to
23 the cost figures.

24 MR. MAURO: You don't have anything for
25 Canada?

26 MR. STECHISHIN: No, there is nothing at
27 all comparable here available for determining cost
28 in Canada.

29 Q. Would you carry on Mr. Stechishin?



MR. STECHISHIN:

194. Table 22 indicates that the terminal costs involved on a 10,000 pounds shipment are \$61.56 while the same costs on a 120,000 pounds shipment are \$65.22. Thus, while the weight in the car has been increased twelve-fold, the terminal costs have increased by only \$3.66 or 5.9 per cent. Table 23 indicates that the line haul cost for a 10,000 pounds shipment are 13.295 cents while the same costs on a 120,000 pounds shipment are 25.329 cents per mile. While the weight in the car has been increased by 1,200 per cent the line haul costs per mile have increased by only 90.5 per cent.

195. At present the railways prescribe a certain minimum weight per car on which rates are based. Where the shipper loads in excess of that minimum weight his charges are based on the direct ratio between the weight actually loaded and that minimum. For example, if the minimum weight is 50,000 pounds and the rate is \$1.00 per 100 pounds, the charges for a 50,000 pounds car would be \$500.00. On the other hand, if the shipper loaded 70,000 lbs. the rate would still be \$1.00 per 100 lbs. and the total charges, \$700.00. On a 1,000 mile shipment the increase in costs, based on the data in Tables 22 and 23, of a 70,000 pounds shipment over that of a 50,000 pounds shipment is only 9.4 per cent. The total freight charge, however, has been increased by 40 per cent.



1
2 196. If the railways were to assess their
3 charges on a basis which would reflect more nearly
4 full utilization of the car, the rates would be quoted
5 as a flat charge per car, varying only with the
6 mileage. The shipper who actually loads the car
7 to capacity would be assessed the same charges in
8 dollars as another shipper who fails to load the car
9 to capacity. Using the same illustration, if the
10 railways decided that \$600.00 per car were an
11 equitable charge for this movement, both shippers
12 would pay this charge of \$600.00 per car. However,
13 the shipper who loads 70,000 lbs. would pay 86 cents
14 per 100 lbs. -- that is the calculated figure --
15 while the shipper who loads only 50,000 lbs. would
16 pay \$1.20 per 100 lbs. It would then be to the
17 advantage of the shipper who normally only loads
18 50,000 lbs. to add an additional 20,000 lbs. to each
19 shipment since the additional 20,000 lbs. would move
20 at no additional cost to the shipper.

21 197. This heavier loading per car would mean
22 that less cars per year would be required to carry
23 that particular shipper's traffic. Thus while the
24 railways might not increase their revenues they would
25 carry the same volume of freight with the use of
26 less equipment, thereby effecting a saving in
27 operating costs.

28 198. The railways in recent years have
29 instituted what are generally referred to as incentive
30 rates. Under this scheme, instead of basing rates



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in direct proportion to the weight loaded, subject to the minimum weight, progressively lower rates are offered to shippers based on a series of minimum weights. For example, these rates might appear in a freight tariff as follows:

Minimum Weight in Lbs.	Rate in Cents per 100 lbs.	Charges per car
24,000	83	\$ 199.20
30,000	78	234.00
40,000	73	292.00
50,000	70	350.00
60,000	67	402.00

The charges in the righthand column are figures put in by myself.

COMMISSIONER ANSCOMB: What has been the effect in actual practice of that movement in 198?

MR. STECHISHIN: It has lead to much heavier loading of the railway cars of that particular traffic. This is Winnipeg to Saskatchewan that I took these rates from.

COMMISSIONER ANSCOMB: Does that apply in any particular business or any particular item of traffic moving?



1
2 MR. STECHISHIN: Well, these are, by and
3 large, what they refer to as all-commodity rates. If
4 a shipper cannot load this weight he will make an
5 arrangement with another shipper to get together and
6 pool in order to get the full minimum weight. This
7 leads to a reduction in the number of cars required
8 to perform the same number of tons.

9 THE CHAIRMAN: It has been fruitful?

10 MR. STECHISHIN: Apparently very fruitful.
11 199. This scheme is a compromise between a flat
12 charge of dollars per car discussed above, and the
13 present basis of a flat charge per 100 pounds. It
14 has the advantages to the railways in that it tends
15 to encourage heavier loading of cars and therefore
16 fuller utilization of equipment. The shipper benefits
17 over the present method in that he receives a lower
18 rate for heavier loading, but his total charges are
19 still increased disproportionately to the added
20 cost to the railways as the result of the heavier
21 loading. It has the further disadvantage in that
22 for weights which lie between the specified minimum
23 weights his charges continue to vary directly with the
24 weight loaded. In the above example, a 100 per cent
25 increase in weight from 30,000 pounds to 60,000 pounds
26 results in a 72 per cent increase in revenue, from
27 \$234.00 to \$402.00. The cost data in Tables 22
28 and 23 indicate that the increase in costs to the
29 railway is only 12 per cent.

30 200. One further consequence of basing freight



1
2 charges on a per car basis, whether by means of a flat
3 charge per car or by means of a sliding scale of
4 rates based on increasing minimum weights, is that
5 widespread adoption of either of these schemes could
6 lead to the virtual elimination of freight classification.
7 The physical loading characteristics of each commodity
8 would determine the maximum weight which could be loaded
9 into a car. This in turn would determine the rate
10 of each commodity based on loading characteristics.
11 On certain commodities it would be necessary to assess
12 a surcharge where experience has shown a higher
13 damage claim record due to fragility or high value.
14 Virtual elimination of the Canadian Freight
15 Classification would materially reduce the clerical
16 and accounting expense in rating shipments and would
17 also substantially reduce the necessity for the many
18 thousands of freight tariff items and permit simpli-
19 fication of the remaining items.

20 THE CHAIRMAN: This was opposed by the
21 truckers?

22 MR. STECHISHIN: I am quite sure they would.
23 Demurrage.

24 201. Freight cars do not earn revenue for the
25 railways unless they are carrying freight from one point
26 to another. This primary function of the railway car
27 cannot be performed unless the car is made available
28 to the shipper for loading of freight and to the con-
29 signee for unloading of freight. Both of these
30 operations consume time during which the car is not



1
2 actually earning revenue. It is therefore in the
3 railways' interest to minimize this lost time by
4 encouraging shippers to release cars held by them for
5 loading or unloading as promptly as possible.

6 202. To this end the Canadian railways, through
7 their agency, the Canadian Car Demurrage Bureau,
8 have published certain regulations governing loading and
9 unloading and penalty charges for delays. Basically
10 these rules provide no penalty for the first two days
11 following the date of placement of the car and a
12 penalty of \$4 per day per car for the succeeding four
13 days and a penalty of \$8 per car thereafter. There
14 are certain provisions governing the inclusion and
15 exclusion of Saturdays, Sundays and holidays which
16 are not pertinent to this discussion.

17 203. Thus, while the demurrage rules to penalize
18 shippers for delays beyond the "free" time in loading
19 and unloading, they do not give any consideration
20 to those shippers who release their cars in less
21 than the "free" time. Since the shipper has up
22 to 3 "free" working days (depending on the time of
23 the day the car was placed) at no difference in his
24 freight costs, he has no incentive to release the
25 car in less than the allotted time.

26 204. In the United States the railroads have
27 given shippers an added incentive by instituting what
28 is known as the "Average Agreement". Shippers who
29 are parties to this agreement can average those cars
30 released in less than the "free" time against those



1
2 cars held beyond the "free" time, thereby reducing their
3 demurrage charges. The "Average Agreement" is of
4 value to a shipper who on occasion may detain a
5 car beyond the "free" time and on occasion release the
6 car in less than the "free" time since he can apply
7 his credit days against the demurrage charges incurred.
8 On the other hand, it is of no value to a shipper who
9 is able consistently to release his cars in less than
10 the "free" time since he has no demurrage charges
11 against which to apply his earned credits.

12 205. The Canadian railways instead of disregard-
13 ing the "free" time for demurrage purposes could
14 offer a shipper a reduction in his freight charges
15 whenever a car is released in less than the pre-
16 scribed "free" time. This reduction should be
17 independent of penalty charges which may or may not
18 be assessed on other cars held by the shipper. We
19 are of the view that if the railways were to give
20 shippers such an incentive to release cars in less
21 than the "free" time rather than merely permit them to
22 avoid penalty, more cars would become available to
23 the railways for the carriage of freight than at
24 the present time. An increase in the number of
25 cars so made available would enable the railways to
26 reduce the number of cars required for transportation
27 service.

28 MR. MAURO:

29 206. The material presented in the foregoing
30 chapter includes some of the important matters which



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1
2 should be appraised in any consideration of increased
3 economies and efficiencies in railway operations.

4 The position of the province of Manitoba in relation
5 to this subject was clearly set out by the Premier
6 as follows:

7 "We would re-emphasize that our
8 interest in this important matter
9 should not be interpreted as an
10 attempt to substitute our judgment
11 for that of rail management. Our
12 interest arises from the fact that
13 these large expenditures, under the
14 present 'requirements formula' have
15 to be borne by the freight shippers
16 . . ."

17 (Daily Transcript, Volume 29, February, 1960, pages
18 4266-4267.)

19 Mr. Chairman, that completes Chapter III.
20 We wanted to deal with every one of the factors, but
21 you will notice there is another chapter dealing with
22 Clause (d) "Other Assets of the Railways". While
23 our format deals chapter by chapter with the terms
24 of reference, there is no chapter dealing with "other
25 assets", and I don't want to go over that ground at
26 all. We felt we didn't have the information to make
27 a responsible submission, and we felt that until the
28 information was available it would be a disservice
29 both to the railways and to this Commission for
30 Manitoba to come forward and submit something we



1
2 could not back up.

3 The final chapter deals with Clause (e) of
4 the terms of reference, "Such Other Related Matters
5 as the Commission Consider Pertinent or Rélevant. . .".
6 In this context I refer again to Volume 29 of the
7 daily transcript, page 4276 where Mr. Mauro asked the
8 question: "Mr. Premier, you have dealt with the terms
9 of reference (a), (b), (c) and (d) in the Order in
10 Council establishing this Commission. There was
11 one final paragraph in the Order in Council, namely,
12 paragraph (e). I would ask you whether or not the
13 province of Manitoba wishes to make a statement to
14 this Commission on this aspect of the terms of
15 reference?" "A. Under this clause the Province
16 of Manitoba may wish at a later date to direct the
17 attention of the Commission to a number of other
18 matters."

19 Q. What submission do you wish to make,
20 Mr. Stechishin, at this time under clause (e)?

21 MR. STECHISHIN: Under clause (e) the
22 first item I would like to discuss is the Failure of
23 the railways to provide rate groups.

24 207. During the discussions before the Board of
25 Transport Commissioners on the equalization of class
26 rates, reference was made to practice in the United
27 States where a uniform scale of class rates over a
28 large portion of the United States had been ordered by
29 the Interstate Commerce Commission. One of the
30 principal differences between the class rate scale



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1
2 adopted in the United States and that in Canada was
3 in the use of rate groups.

4 208. In our view the method in use in the United
5 States leads to a more reasonable progression in
6 rates and results in less distortion of geography
7 than does the Canadian method. The anomalies dis-
8 cussed under the heading "Inequities Under the Long
9 and Short Haul Clause" would not occur if the United
10 States method were followed. We now wish to discuss
11 and compare the two approaches.

12 209. Rate groups are frequently confused with
13 rate blocks and indeed even the Turgeon Commission
14 seemed to regard the two as synonymous. It is
15 necessary to distinguish between the two concepts.

16 210. Rates on a given commodity increase as the
17 distance becomes greater. If the rates were to
18 reflect this increase, mile by mile, it would be
19 necessary to publish the rates in minor fractions of one
20 cent. The average freight charge in Canada is one
21 and one-half cents per ton-mile for all traffic. The
22 average haul is approximately 400 miles and the average
23 rate per ton is \$6. Expressed in cents per one
24 hundred pounds, the average rate for a distance of
25 400 miles is approximately 30 cents. For 401 miles
26 this rate becomes 30 $\frac{3}{40}$ cents, for 402 miles,
27 30 $\frac{3}{20}$ cents, for 403 miles, 30 $\frac{3}{10}$ cents, and so
28 on. Not until 414 miles does the average rate
29 register over 31 cents. Rather than contend with
30 insignificant fractions, the railways will publish a



single rate to apply to all mileages between 401 and 425 miles or whatever block of mileages is deemed suitable for the goods in question. These are properly called rate blocks and not rate groups. Two points, say 20 miles apart, might be charged the same rate from a station 405 miles from the nearest point, but would be charged differing rates from another point 395 miles from the nearest point.

10 miles 395 miles 20 miles
A-----B-----C-----D

The mileage from A to B is 10 miles

The mileage from A to C is 405 miles

The mileage from A to D is 425 miles

The mileage from B to C is 395 miles

The mileage from B to D is 415 miles

The mileage from C to D is 20 miles

Both C and D are in the same rate block from A (405 miles and 425 miles).

C and D are in different rate blocks from B (395 miles and 415 miles).

211. Under rate groupings, as distinguished from rate blocks, once two stations are determined to be in one rate group they are always charged the same rate regardless of the incidence of mileage except possibly over very short distances where the degree of difference in cost would not justify the same rate.

212. In the above example, if A and B were in one rate group and C and D in another rate group, the



1
2 governing rate between the two groups would be
3 determined by the mileage between the "key" points,
4 and would then apply to or from all stations in the
5 one group to all stations in the other group. If D
6 were designated the "key" point for rates to C and D,
7 all rates from A to B to either C or D would be
8 "grouped" in the 401-425 mileage "block." On the
9 other hand, if C were designated the "key" point in
10 one group and B the "key" point in the other, all
11 rates from A to B to either C or D would be "grouped"
12 in the 376 - 400 mileage "block" since the distance
13 between the "key" points, 395 miles, comes within that
14 block.

15 213. Normally the economic centre of a group is
16 selected as the "key" point for that group and the
17 mileage from that "key" point governs in all direc-
18 tions so that if there is a loss or gain in one direc-
19 tion it is compensated for by a gain or a loss in the
20 opposite direction.

21 214. Rates between stations in adjacent groups
22 are usually determined by using actual mileage. If
23 station "E" were located 10 miles beyond "D", the mile-
24 age to "C" would be 30 miles as compared to 10 miles
25 to "D". Rate parity in this case would not seem
26 reasonable and each movement is assessed a rate based
27 on its actual mileage.

28 215. Rate blocks are established for the con-
29 venience of the railways in publishing rates. On
30 the other hand, rate groups, when they exist, are



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established to meet the needs of industry since they enable neighbouring industries or producers to compete in given markets without the distortions caused by rate blocks. While Canadian railways have recognized the need for rate groups in a few isolated instances, they are not standard and apply only when specific reference is made thereto by a rule in the applicable tariff.

216. For example Rule 270 of CFA 46-A provides that the rates to or from Montreal will also apply to or from the following points, disregarding actual mileage.

MONTREAL, QUE. POINTS

Rule 270:

Rates from or to Montreal, Que. will apply from or to Montreal rate points named below:

On Canadian National Railways

Ahuntsic .
Atwater
(Ward's Yard)
Cartierville
Convent
Cote St. Paul
Dominion
Jacques Cartier Jct.
Lachine
Longue Pointe
Maisonneuve



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- 1
- 2 Montreal
(Bonaventure)
- 3 (Moreau St.)
- 4 Montreal East
- 5 Pie IX
- 6 Pointe aux Trembles West
- 7 Point St. Charles
(Bridge St.)
- 8
- 9 Rockfield
- 10 St. Henri
- 11 St. Henry
- 12 St. Lambert
- 13 St. Laurent
- 14 Tetreaultville
- 15 Val Royal
- 16 Ville St. Pierre
- 17 On Canadian Pacific Railway
- 18 Angus
- 19 Atwater
- 20 Bordeaux
- 21 Cote des Neiges
- 22 Cote St. Paul
- 23 Eastern Public Livestock
- 24 Market
- 25 Hochelaga
- 26 Jacques Cartier Jct.
- 27 La Salle
- 28 Mile End
- 29 Montreal
(Place Viger)
- 30



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1
2 Montreal West

3 Mount Royal

4 Outremont

5 St. Henry

6 St. Luc

7 St. Luc Jct.

8 Westmount.

9
10 217. The rate group based on Toronto is found
11 in Rule 570 of the same tariff as follows:

TORONTO, ONT. POINTS

12 Rule 570:

On Canadian National Railways

13
14 218. Except as otherwise specifically shown, rates
15 from or to Toronto, Ont., on the Canadian National
16 Railways will apply to or from the Toronto Metropolitan
17 Area (See Note), including the following stations:

18 Agincourt

19 Danforth

20 Davisville
(Merton St.)

21 Don

22 Downsview

23 Elia

24 Leaside

25 Long Branch

26 Mt. Dennis

27 New Toronto
(Including former Mimico Terminals)

28 North Toronto

29 Oriole

30 Parkdale



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1
2 Port Union
3 St. Claire Ave.
4 (Davenport)
5 Scarboro
6 Swansea
7 Toronto
8 (Simcoe St.)
9 Weston
10 West Toronto

11 NOTE: The limits of the Toronto Metropolitan Area
12 bisect the lines of the Canadian National Railways
13 as follows:

14 Oakville Sub-Division at Mileage
15 9.83 from Union Station

16 Brampton Sub-Division at Mileage
17 13.50 from Union Station

18 Uxbridge Sub-Division at Mileage
19 16.38 from Union Station

20 Oshawa Sub-Division at Mileage
21 17.29 from Union Station

22 Bala Sub-Division at Mileage
23 15.17 from Union Station

24 Newmarket Sub-Division at
25 Mileage 12.91 from Union
26 Station.

27 On Canadian Pacific Railway

28 219. Except as otherwise specified, rates from
29 or to Toronto, Ontario, on the Canadian Pacific Railway
30 Company, will also apply to or from the following
points:

Agincourt

Davenport

Don

Donlands



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1
2 Islington

3 Leaside

4 Long Branch

5 Mount Dennis

6 New Toronto

7 North Toronto

8 Ontario Stock Yards Swansea
(West Toronto)

9 Parkdale

10 Scarborough

11 Scarborough Pit

12 Toronto

13 Weston

14 West Toronto.

15 220. The points in the Winnipeg rate group are
16 published in Rule 600 of CFA 46-A as follows:

17 Rule 600:

18 WINNIPEG, MAN. POINTS

19 221. Rates to or from Winnipeg, Manitoba, will
20 apply to or from Winnipeg rate points named below:

21 On Canadian National Railways

22 Fort Whyte

23 Paddington

24 St. Boniface

25 St. James

26 Transcona

27 Union Stock Yards

28 West Transcona

29 Winnipeg
30



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On Canadian Pacific Railway
College Spur
Fort Whyte
North Transcona
Paddington
St. Boniface
Union Stock Yards
Winnipeg

222. The above groups are effective only on East-West traffic. Within Western Canada the "groups" are found in the individual rate tariffs. For example, CN 950 contains the following items:

Item No. 1. Application of Winnipeg, Manitoba, Rates - Except where otherwise provided, the rates named herein from or to Winnipeg, Manitoba, will also apply from or to Fort Whyte, Paddington, St. Boniface, St. James, Transcona and West Transcona, Manitoba.

Item No. 2. Application of Edmonton, Alberta, Rates from or to Dunvegan Yards, Alberta. The rates named herein from or to Edmonton, Alta., including the distance rates, will also apply from or to Dunvegan Yards, Alberta (Northern Alberta Railways) via Edmonton, Alberta.

.....

Item No. 7. Application of Vancouver, B.C., Carload rates from or to North Vancouver and North East Vancouver, B.C. - The carload rates named herein from or to Vancouver, B.C., including the distance rates



will also apply from or to North Vancouver and North
East Vancouver, B.C.

223. CP 975 covering the same general territory
shows the following groups:

Item 1 (a) Application of Winnipeg, Man., Rates

Except where otherwise provided, the rates named herein,
from or to Winnipeg, Man., will also apply from or to
College Spur, Man., Fort Whyte, Man., North Transcona,
Man., Paddington, Man., St. Boniface, Man., St. James,
Man., and Union Stock Yards, Man.

(c) Application of Edmonton, Alta., Rates

from or to Dunvegan Yards, Alta.

Rates named herein (including mileage rates) from or to
Edmonton, Alta., will also apply from or to Dunvegan
Yards Alta. (Northern Alberta Railways) via
Route No. 11

(d) Application of Vancouver, B.C., Carload

Rates from or to North Vancouver, B.C.

Except as otherwise provided, the carload rates named
in tariff, from or to Vancouver, B.C., including the
distance rates will also apply from or to North
Vancouver, B.C. as follows:

1. Via Route No. 1 or Route No. 1a and connec-
tions on traffic received from or delivered to P.G.E. Ry.

2. Via Route No. 5-A or Route No. 5-A and con-
nections to or from Stations east of Thompson and Othello,
B.C.

.....



(f) Application of Saskatoon, Sask. Rates from or to Sutherland, Sask. Rates named herein from or to Saskatoon, Sask., will also apply from or to Sutherland, Sask.

(g) Application of Nanaimo, B.C. Rates from or to Northfield, B.C. Rates named herein from or to Nanaimo, B.C., will also apply from or to Northfield, B.C.

(h) Application of Calgary, Alta., Rates from or to Turner, Alta. Rates named herein from or to Calgary, Alta., will also apply from or to Turner, Alta.

224. It should be noted that St. James is not included in the C.P.R. "Winnipeg group" from Eastern Canada, but is included in the C.P.R. "Winnipeg group" within Western Canada. On the other hand, Union Stock Yards is included in the C.N.R. "Winnipeg group" from the East but not within the West. If the commodity rate is found in a tariff other than or not subject to those listed above, these groupings do not apply and the applicable groups, if any, are those referred to in the specific tariff used.

Q. We have heard frequent references to the so-called A and B groups in Eastern Canada: could you briefly relate this grouping to the problem you are now discussing with the Commission?

MR. STECHISHIN:

225. The so-called A and B groups which caused a blanketing of rates between western Canada and



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(Mauro)

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1
2 the area within the triangle bounded by Montreal,
3 Windsor and Sudbury were not really rate groups at all.
4 These groups were brought about by the railways' de-
5 cision to allow the competitive rates from St. Lawrence
6 River ports to apply as maxima to intermediate points
7 by rail. The effective hold-down of these maxima
8 ran out at about Sudbury and the triangle of parity
9 of rates was only the incidental result of this hold-
10 down. The so-called groups were and are non-
11 existent when establishing rates between the triangle
12 and the maritime area.

13 226. The A and B "groups" were the result of the
14 extension of the Montreal-Toronto rates as hold-downs
15 to intermediate points. The Board of Transport
16 Commissioners under "equalization" reversed this process
17 and extended the Toronto rate as a maximum to other
18 points in the former A and B "group" beyond, or with
19 a greater mileage, than Toronto. The railways no
20 longer refer to this constructive mileage as a rate
21 group but designate the area in their tariffs as
22 "Territory 10".

23 227. In the United States, on the other hand, class
24 rates are determined between designated "key" points.
25 The rates are then applied in all directions to or
26 from all railway stations in the area or group sur-
27 rounding the key point.

28 228. In Canada the block system cuts across economic
29 areas indiscriminately and creates inequalities which
30 are unwarranted. If the blocks are large, say 50 miles,



1
2 and the break point falls between adjacent competing
3 producers, a severe penalty, disproportionate to the
4 geographic disadvantage, is assessed. Diagram II - 8
5 shows the rate groups in the State of North Dakota
6 under the United States method of rate groupings.

7 Q. We have an illustration of the rate
8 grouping situation in Volume II, which is diagram
9 II-8, entitled "Map Showing Rate Groups in North
10 Dakota as Published by Railroads in Purported Compliance
11 with Interstate Commerce Commission's Decision in
12 Docket No. 28300."

13
14 ---EXHIBIT NO. 153-L: Diagram II-8, Map Showing
15 Rate Groups in North Dakota
16 as published by Railroads
17 in Purported Compliance with
Interstate Commerce Com-
mission's Decision in
Docket No. 28300.

18 COMMISSIONER MANN: Does that apply to inter-
19 state traffic as well as intra-state?

20 MR. MAURO: I notice, Commissioner Mann, that
21 some of the rates in the southeast corner of the state
22 cross over into the adjoining state -- I think that is
23 Minnesota -- on the right hand side of the map.

24 MR. STECHISHIN: This does show the extent to
25 which the grouping has been adopted by the United States
26 railroads, at least in this state, and within those
27 heavy lines any point within any one of those areas
28 or groups would have the same rate from any other point
29 in the United States, with the exception of adjacent
30 groups where the rate is not governed by the group to group



1
2 rate but by the actual mileage that is involved.

3 COMMISSIONER GOBEIL: I do not see a scale
4 on that. On the larger group there, how many miles
5 would that cover?

6 MR. STECHISHIN: They vary, but they are
7 roughly 40 to 50 miles across.

8 Of particular importance is the fact that
9 when the rate between key points is based on competitive
10 mileage, such mileage governs all rates to all points
11 within the group. (Diagram II-9).

12 MAURO: Now, I would like to file diagram
13 II-9, which will become Exhibit 153-M, and that is a
14 diagram purporting to show how class rates from the
15 east follow irregular progressions on the C.P.R. main
16 line.

17
18 ---EXHIBIT NO. 153-M: Diagram II-9, purporting
19 to show how class rates
20 from the east follow ir-
21 regular progressions on the
22 C.P.R. main line.

23 Q. Would you explain that diagram, Mr.
24 Stechishin?

25 MR. STECHISHIN: This diagram shows that
26 while the Canadian railways have adopted the block
27 system as opposed to the group system, where there is
28 a station with the rate influenced by that of the
29 competing railroad, that rate situation is not extended
30 to the whole group but only to that one station.
Tracing from east to west -- this is right across
Manitoba.



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2 Q. Just so that we have the diagram
3 fully set out, would you explain it?

4 MR. STECHISHIN: The column down the left
5 hand side is the rate from A and B groups, if I can
6 call them that, in Territory 10, to Manitoba points,
7 expressed in cents per 100 pounds. The mileages
8 across the border are not the mileages from A and B
9 but, rather, from Port Arthur or Fort William since
10 there is no published mileage direct from east to west,
11 and it was merely to show the distance between the
12 various stations. Tracing the line, we find the
13 rate moves in steps upward until it reaches just
14 before Portage la Prairie where there is a drop in
15 the rate, and then immediately west of Portage la
16 Prairie it goes back up again, and then takes another
17 step, and then there is another dip at Carberry, and
18 starts to decline with a dip at Brandon, and a last
19 dip at Virden, but it is to show the irregularity of
20 the class rate progression between eastern Canada and
21 this portion of Manitoba on the main line of the
22 Canadian Pacific.

23 229. In summary, the provision of rate groups
24 does not affect adversely rail revenues since the
25 absorption of mileages in one direction is compen-
26 sated by the increase in actual mileage in the opposite
27 direction. The existence of rate groups ensures
28 parity of rates for neighbouring industries to all
29 markets in which they compete. Since this benefit
30 to industry can be achieved without reduction in rail



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2 revenues, the provision of rate groups is in the
3 interest of the economy.

4 Q. What is your recommendation?

5 MR. STECHISHIN: The Province of Manitoba
6 recommends that the railways be required to establish
7 class and mileage commodity rates on the basis of
8 rate groups, the rates between each group to be
9 based on the mileages between "key" points.

10
11 ---Adjournment.
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February 1960

ROYAL COMMISSION

ON

TRANSPORTATION

HEARINGS

HELD AT

OTTAWA

VOLUME No.:

93

DATE:

SEP. 23 1960

OFFICIAL REPORTERS

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I N D E X

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STECHISHIN, V.M.
TRACHTENBERG, S.
RUTLEDGE, W.J.

Direct examination
By Mr. Mauro (resumed)

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Cross-examination
By Mr. Cooper
By Mr. Brazier

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2
3 ROYAL COMMISSION ON TRANSPORTATION
4
5

6 Proceedings of hearings held
7 in the Court Room, Board of
8 Transport Commissioners Offices,
9 Ottawa, Ontario, on the 23rd
10 day of September, 1960.
11

12 COMMISSION

13 Mr. M. A. MacPherson, Q.C. Chairman
14 Mr. H. Anscomb Member
15 Mr. A. H. Balch Member
16 Mr. R. Gobeil Member
17 Mr. H. A. Mann Member
18 Mr. A. Platt Member
19

20 COMMISSION COUNSEL

21 Mr. A. G. Cooper, Q.C.

22 Mr. G. S. Cumming

23 Mr. H. W. Ellicott Adviser

24 Mr. F. W. Anderson Secretary

25 Major N. Lafrance Assistant Secretary
26
27
28
29
30



Ottawa, Ontario,
Friday,
September 23, 1960

---On commencing at 10.00 a.m.

THE CHAIRMAN: Order, please. Mr. Mauro?

MR. McDONALD: May I say something before
the proceedings begin?

THE CHAIRMAN: Yes.

MR. McDONALD: In view of the seriousness of
the situation from the railways' standpoint, and
particularly in light of the Commission's order of
yesterday, Mr. Sinclair and I asked our principals
for instructions. Mr. Crump and Mr. Gordon are on
their way to Ottawa this morning and we are having a
conference with them. Therefore, we will be unable
to be present until our position is clarified.

THE CHAIRMAN: Very well, Mr. McDonald.
Mr. Mauro?

MR. MAURO: Thank you, sir.

DIRECT EXAMINATION BY MR. MAURO (resumed):

Q. Yesterday we commenced the final
chapter of our submission entitled "Other Related
Matters", and we had dealt with the matter of the
railways' failure to provide rate groups, and I would
now ask you to go on to the next item entitled
"The Aggregate of Separately Established Rates."

MR. STECHISHIN:

231. Rates, other than those subject to mileage



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scales, are published as point to point rates, that is, a rate of a given amount is published as applying from a named station to another named station. If a reduced rate is not marked competitive by the carriers it will apply as a maximum to intermediate points. On the other hand, if the rate is marked competitive it does not apply as a ceiling on intermediate points and this stipulation is frequently made in the tariffs.

232. On many occasions a shipper will find no reduced rates to the destination he wishes to reach, but will find one to an intermediate point and another from that intermediate point to the final destination. The sum of these two rates may be less than the amount which he would be required to pay if he made a direct shipment.

233. The Board of transport Commissioners has recently ruled ("Application of J. M. Brown Motor Company Limited re Freight Rate on automobiles from Hamilton, Ontario, to Vancouver, B.C., 47 J.O.R. & R.

235. The issue in this case was as to what rate was legally applicable in respect of the movement of certain carloads of automobiles tendered to Canadian Pacific at Hamilton and consigned directly to the applicant at Vancouver. When certain of the shipments were made there was in effect a single factor through rate from Hamilton to Vancouver, and also local rates from Hamilton to Hatzic, B.C. and from Hatzic to Vancouver. The local rates, when combined, made a total rate of a lesser amount than the through rate



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2 from Hamilton to Vancouver. The traffic was not
3 shipped to Hatzic and reshipped therefrom to Vancouver,
4 but the applicant company sought to establish its right
5 to a declaratory order that the combination of the
6 local rates should apply to the through movement in
7 displacement of the published and filed through rate.
8 The Board reviewed previous decisions and found that,
9 considering that the traffic was not consigned to and
10 reconsigned from Hatzic, but was delivered to the
11 railway at Hamilton for transportation to Vancouver
12 direct, the rate legally applicable was the published
13 single factor through rate from Hamilton to Vancouver."
14 (Fifty-third Report of Board of Transport Commis-
15 sioners for Canada for the Year Ended December 31,
16 1957, pages 29-30) that if the shipper desires
17 the lower combination of rates where one is available,
18 he must order the railway to stop the train at that
19 intermediate point, take delivery of the shipment, and
20 then rebill the same shipment through to final desti-
21 nation. Under this procedure the shipper is
22 compelled to put the railways to additional expense in
23 order to obtain the lower rate.

24 Q. Please go on, Mr. Stechishin.

25 MR. STECHISHIN:

26 234. We respectfully submit that such a ruling
27 is both unnecessary and wasteful. It favours the
28 larger shipper who has a traffic department capable
29 of unearthing these rate "gimmicks".

30 235. We are pleased to report that since this



1
2 Commission commenced its hearings, the Canadian railways
3 recognized this anomaly and are providing, in some
4 cases at least, the right to use a combination of
5 rates without rebilling, where this results in lower
6 total charges to the shipper.

7 236. While this action by the Canadian railways
8 is to be commended, the interest of shippers can only
9 be safeguarded by a regulation similar to that in
10 the United States. The Interstate Commerce Commis-
11 sion regulations contain the following clause:

12 "56. Reduction of Rate to Equal the
13 Aggregate of the Intermediate Rates:-

14 (a) Section 4 of the Act, as amended,
15 prohibits the charging of any greater com-
16 pensation as a through rate than the aggre-
17 gate of the intermediate rates that are
18 subject to the act. 'The Commission has
19 frequently held that through rates which are
20 in excess of the sum of the intermediate rates
21 between the same points via the same route
22 are prima facie unreasonable.' Many informal
23 complaints are received in connection with re-
24 gularly established through rates which are in
25 excess of the sum of the intermediate rates
26 between the same points. The Commission has
27 no authority to change or fix a rate except
28 after full hearing. It is believe to be
29 proper for the Commission to say that if called
30 upon to formally pass upon a case of this



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2 nature it would be its policy to consider a
3 rate which is higher than the aggregate of
4 the intermediate rates between the same
5 points via the same route as prima facie
6 unreasonable and that the burden of proof
7 would be upon the carrier to defend such
8 unreasonable rate.

9 (b) Where a rate is in effect by a given
10 route from point of origin to destination
11 which is higher than the aggregate of
12 intermediate rates from and to the same
13 points, by the same or another route such
14 higher rate may, on not less than one day's
15 notice to the public and the Commission, be
16 reduced to the actual aggregate of such inter-
17 mediate rates. Such reduced rate must be
18 published in a supplement to or a reissue
19 of the tariff in which the rate so reduced
20 appears except that if the rate to be reduced
21 is published in a tariff containing class rates
22 only and the reduced rate is to be published
23 as a commodity rate the reduced rate must be
24 published in a commodity tariff or supplement
25 thereto. Any tariff or supplement containing
26 a rate reduced under authority of this rule
27 must bear on its title page, or in connection
28 with such item the notation 'Issued on one days'
29 notice under authority of Rule 56 Interstate
30 Commerce Commission Tariff Circular 20. The



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rate (or rates) hereby reduced appears in
..... Tariff I.C.C.Item (or page)
.....and the factors to and from
(here insert point or points on which combina-
tion makes) used in making the new rate (or
rates) are found inTariff I.C.C.
No....., Item (or page), and
.....Tariff I.C.C. No.(Item
(or page)"

(c) In order to facilitate the publication
of rates which will be in accord with the
aggregate of intermediates provision of the
Fourth Section of the Act the following rules
may be incorporated in tariffs:

Carriers have endeavoured to publish
herein rates which do not exceed the aggregate
of the intermediate rates between points between
which there is an actual movement of traffic,
but if there should be in this tariff any rate
which is in excess of the aggregate of inter-
mediates, or if through subsequent change in
an intermediate factor any rate in this tariff
becomes higher than the aggregate of intermediates
in violation of the provisions of the Fourth
Section of the Act, carriers will reduce such
rate to the aggregate of the intermediate
rates on one day's notice under authority of
Rule 56 of Interstate Commerce Commission
Tariff Circular 20, on any commodity between



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2 points between which there is a movement or
3 a prospective movement of that commodity.

4 The publication of such reduced rate will be
5 made within 30 days after such unlawful rate
6 comes to carriers' notice.

7 "Carriers, parties to this tariff, whose
8 rate over the route of movement is higher than
9 the aggregate of the intermediates over the
10 route, further agree that on any shipment on
11 which the higher rate named in this tariff
12 for that route has been charged, application
13 will be made promptly to the Interstate
14 Commerce Commission for authority to award
15 reparation on the basis of the aggregate of
16 intermediates in effect on date of shipment.
17 (See Note)

18 NOTE:- Carriers or shippers who dis-
19 cover combinations which result in lower
20 charges than the rates named herein, should
21 promptly report such cases to the publishing
22 agent of this tariff, showing the through rate
23 and the item or page where it is found to-
24 gether with the separate factors which make up
25 the combination, giving tariff reference by
26 item or page, where possible, for each.

27 "In placing this rule in tariffs
28 carriers must strictly adhere to the wording
29 of the rule as no modification thereof will
30 be permitted."



1
2 "The failure to publish and file
3 reduced rates as provided here, within 30
4 days from the date that said rates are brought
5 to the attention of the carriers parties
6 thereto, or any of them, or their agents,
7 will be considered by the Commission as suf-
8 ficient ground for the issuance of an order
9 prohibiting its use in connection with such
10 carrier or carriers. A promise to publish
11 certain rates, when published in a tariff,
12 becomes the rule of the carriers parties to
13 the tariff and therefore when a carrier or agent
14 has been called upon to reduce rates under
15 authority of the above rule it will not be
16 necessary for such carrier or agent to secure
17 any additional authority from the carriers
18 parties to the tariff for the publication of the
19 reduced rates and any delay on that account may
20 cause carriers, to incur the penalties provided
21 for violations of the Fourth and Sixth Sections
22 of the Act in addition to losing the right to
23 use the rule in tariffs."

24 237. The pertinent section of the Interstate
25 Commerce Act reads as follows:

26 "Sec. 4(As amended June 18, 1910,
27 Feb. 28, 1920, Aug. 9, 1935, Sept. 16, 1940.)
28 (1) It shall be unlawful for any common
29 carrier subject to this part of part III to
30 charge or receive any greater compensation



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2 in the aggregate for the transportation of
3 passengers, or of like kind of property,
4 for a shorter than for a longer distance
5 over the same line or route in the same direc-
6 tion, the shorter being included within the
7 longer distance or to charge any greater
8 compensations as a through rate than the
9 aggregate of the intermediate rates subject
10 to the provisions of this part or part III,'
11 but this shall not be construed as authorizing
12 any common carrier within the terms of this
13 part of part III to charge or receive as
14 great compensation for a shorter as for a
15 longer distance: Provided, That upon application
16 to the Commission such common carrier may
17 in special cases, after investigation, be
18 authorized by the Commission to charge less for
19 longer than for shorter distances for the
20 transportation of passengers or property;
21 and the Commission may from time to time pre-
22 scribe the extent to which such designated
23 common carrier may be relieved from the operation
24 of this section, but in exercising the authority
25 conferred upon it in this proviso the Commis-
26 sion shall not permit the establishment of any
27 charge to or from the more distant point that is
28 not reasonably compensatory for the service
29 performed; and no such authorization shall be
30 granted on account of merely potential water



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2 competition not actually in existence; And
3 provided further, That tariffs proposing rates
4 subject to the provisions of this paragraph
5 may be filed when application is made to
6 the Commission under the provisions hereof, and
7 in the event such application is approved, the
8 Commission shall permit such tariffs to become
9 effective upon one day's notice."

10 COMMISSIONER ANSCOMB: You say "greater
11 compensation in the aggregate for the transportation
12 of passengers or of like kind of property."

13 MR. MAURO: Yes. We had a discussion on
14 that the other night. We said that is the first time
15 we have had passengers and freight referred to as
16 "like property".

17 MR. STECHISHIN:
18 238. In addition to permitting the aggregate
19 of intermediates this rule should cover the adding
20 of rates beyond the destination and back. We
21 refer here to situations such as occur, for example,
22 in some transcontinental agreed charges where the
23 rate to Vancouver plus the rate back to some inland
24 point totals less than the rate direct to the
25 inland point.

26 239. It is our submission that a similar clause
27 be incorporated in the Railway Act giving Canadian
28 shippers these combination rates as a right, not as
29 a privilege subject to withdrawal.

30 Q. Now, Mr. Stechishin, would you just



1
2 sort of sum up that matter of the aggregate of inter-
3 mediates? As I understand it, there presently exists
4 a situation with shippers in, for example, Calgary,
5 to take a shipment from Toronto, bill it to Vancouver
6 and it would be cheaper than if he stopped it off at
7 Calgary?

8 MR. STECHISHIN: Some of the low trans-
9 continental charges, low rates to Vancouver -- and
10 originally the shipper would actually ship goods to
11 Vancouver an additional six or seven hundred miles --
12 if someone rebilled it at Vancouver back to him at
13 Calgary, then his net freight charge would be lower
14 than if he had made the shipment from Toronto to
15 Calgary. The railways amended some of the agreed
16 charges which eliminated the necessity of actually
17 transporting the car to Calgary and return in order
18 to get the lower charge. This is only on those
19 agreed charges where that rule actually exists in the
20 agreed charge.

21 Q. And what the province of Manitoba is
22 saying is that we certainly compliment the railways
23 for having taken the action as far as they have gone,
24 but this Commission should recommend in Canada something
25 more in line with the Fourth Section of the Interstate
26 Commerce Act whereby this matter of aggregates and
27 intermediates will be law rather than by permission
28 of the railways?

29 MR. STECHISHIN: That is correct.

30 THE CHAIRMAN: What effect, if any, would this



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2 have on revenues?

3 MR. STECHISHIN: It would not affect the
4 revenues at all, Mr. MacPherson, but it would eliminate
5 the necessity of these cars travelling -- in the case
6 of Vancouver that I mentioned, an additional 1500 miles
7 with actually no benefit to the railway. If the car
8 does not travel the additional 1500 miles to Vancouver
9 and back the shipper pays a higher charge.

10 MR. MAURO: Q. This would in no way
11 impair the revenues of the railways because the shipper
12 in Calgary can now ship it to Vancouver, have it rebilled
13 at Vancouver back to Calgary at a lower rate than the
14 through rate to Calgary; so this is simply an attempt
15 to remove what we think is a ridiculous anomaly from
16 the rate structure. It would obviously have the
17 effect of reducing the costs of the railway for this
18 additional movement.

19 COMMISSIONER GOBEIL: Is this state of affairs
20 that you just described exceptional, or does it apply
21 on a few, or on all commodities which benefit from the
22 transcontinental rate?

23 MR. STECHISHIN: It is not just limited to
24 transcontinental rates. It is any case where the
25 combination of rates or the aggregate of separately
26 stated rates total less than the rate from the point
27 where the shipper is making the shipment to his desti-
28 nation. It might be, for example, on an intermediate
29 application, you may have a rate from Toronto to
30 Winnipeg plus a rate from Winnipeg to Saskatoon which



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is lower than the rate from Toronto to Saskatoon.

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Now, if the shipper ships that to Saskatoon, he would pay one charge, but if he shipped it to Winnipeg and rebilled it, he would pay less, and he does it.

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But the other end of it is if it goes -- let us assume that the shipper is making the shipment to, oh, say, Yorkton, Saskatchewan. He would ship it to Saskatoon and rebill it from Saskatoon back, say, to Yorkton. And he has made the railway carry this shipment the additional 100 or 200, or whatever the mileage is, to get a lower rate. What we are trying to get is not to reduce the gross revenue. We are trying to eliminate some unnecessary cost of railroading. The railways' net revenue position would be improved under this proposal.

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COMMISSIONER GOBEIL: But is it common?

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MR. STECHISHIN: It depends on your definition of common. There are a lot of such cases, yes. Whether or not it is common or not -- it is a relative term.

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COMMISSIONER MANN: Your general position is this -- that although the railways have established rules in their tariff allowing the construction of combination rates by combining separately established rates, you are not satisfied with keeping that within the realm of the railways; you want it expressed in statutory form so that it will be a legal obligation to the railways.

30

MR. STECHISHIN: Well, yes, that generally



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2 is our position, Mr. Commissioner Mann. There are
3 two facets of the present privilege that the railways
4 have. This just came in within the last month or
5 two. One, the railways' rule that they have now
6 does not apply to international traffic. If the
7 shipment is international, it still must be rebilled;
8 stop the train; take the car off the train; give
9 the railways a new bill of lading; put the car back
10 on the train, and continue to final destination.

11 MR. MAURO: Q. Mr. Stechishin, is there
12 a situation in Vancouver where it was cheaper to have
13 the car go to Winnipeg, ship it across the line to
14 Pembina or Noyse and back into Winnipeg than it was
15 to take the car off the track in Winnipeg?

16 MR. STECHISHIN: The rate, for example, from
17 Vancouver to Winnipeg is higher than the combination
18 of the rates from Vancouver to Noyse, Minnesota, for
19 the sake of argument, and back to Winnipeg. If you
20 took a car of lumber back to Winnipeg, the smart shipper
21 would have the car sent back through Winnipeg down to
22 the United States and then rebill it back through
23 Winnipeg and his resultant rate would be lower than
24 if he had stopped it at Winnipeg.

25 COMMISSIONER ANSCOMB: Do you tell me if I
26 was to be a shipper in Toronto, then I can ship
27 goods -- I want them in Calgary, so I would ship it
28 to Calgary via Vancouver: that means it would go back
29 to Calgary -- I could do this cheaper than I could
30 ship it Toronto to Calgary?



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MR. STECHISHIN: In many cases, yes.

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COMMISSIONER ANSCOMB: What would I have
to do in Vancouver? Just write the bill of lading
Calgary via Vancouver?

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MR. STECHISHIN: You would have to take
delivery of the goods in Vancouver and issue the
railways a new bill of lading.

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COMMISSIONER MANN: What you do is retain
a retired railway man in Vancouver; pay him \$5 for
the bill of lading and he just exchanges the document.

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MR. STECHISHIN: That is correct. I know
of a number of people who were engaged in just that
business. They did nothing much else but just prepare
bills of lading for shippers to give bills of lading
to the railways.

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MR. MAURO: That is why we have mentioned
in paragraph 234 that we respectfully submit that
the present method favours the larger shipper who has
a traffic department capable of unearthing these
rate gimmicks.

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COMMISSIONER ANSCOMB: Perhaps it is not
a fair question, but I have always taken the view
there is a reason for everything. You may not agree
with the reason ---

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29

MR. STECHISHIN: Yes?

COMMISSIONER ANSCOMB: What is the reason
for the railway doing that? There must be some argu-
ment for it?

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MR. STECHISHIN: I hesitate very, very much,



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2 Commissioner Anscomb, to put reasons into the railways'
3 minds. I do not know why they do some of these things.
4 To me, they are unreasonable on the face of it. I
5 am a little shocked to see this. Admittedly, in this
6 case, they have made a pretty substantial change
7 within the last few months after this was written.
8 It still doesn't go the complete way. It is a
9 separate rule published in each individual tariff, and
10 subject to withdrawal at any time by the railways.

11 COMMISSIONER MANN: With this reservation,
12 that a privilege once established may on withdrawal
13 be protested by parties and it becomes a matter for
14 the Board, then, doesn't it?

15 MR. STECHISHIN: Well, yes and no. Some-
16 times that is so, but I have had a number of cases
17 where a rule has not been changed and someone in the
18 railroads get together and say: "From now on, this
19 rule means something different than what it meant
20 a year or so ago." I referred earlier in the brief
21 to this matter of switching on the east-west traffic.
22 Now, that tariff was changed in 1955, if I recall
23 correctly. The railways did not start assessing
24 switching charges under that tariff until 1958. Now,
25 there was no change in the wording of the tariff but
26 then they sent a letter saying as of so and so we
27 are going to charge you so much a car in accordance
28 with the wording of the tariff; and that happens.

29 MR. MAURO: We think it is serious enough,
30 anyway, Commissioner Mann, that it should not be by way



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2 of a permissive thing on the part of the railways;
3 that the anomaly and inequity on the small shipper is
4 such that it should be safeguarded by statute. And
5 since it cannot do anything to improve the net revenue
6 position of the railways, we think that something
7 similar to the American situation should be incor-
8 porated.

9 COMMISSIONER MANN: Just so that I can get
10 this a little more clearly in my own mind, it is, then,
11 as I understand it, the position of the province
12 of Manitoba that matters such as this, which are in
13 a sense detailed matters of rate construction, should
14 properly be contained in the Railway Act, for instance?

15 MR. STECHISHIN: It is significant that it
16 is contained in the Interstate Commerce Act and the
17 Americans apparently thought it was necessary to put
18 it into the Act rather than leave it to the discretion
19 of the railways.

20 THE CHAIRMAN: You are asking for the same
21 thing?

22 MR. STECHISHIN: Yes.

23 COMMISSIONER MANN: And any similar matter
24 should be properly expressed in statute form?

25 MR. MAURO: If, Commissioner Mann, they are
26 of such a nature to be capable of statement as principle
27 rather than a simple rate, we agree.

28 THE CHAIRMAN: You suggest this as another in-
29 equity?

30 MR. MAURO: Yes, and an inequity capable of



1
2 enunciation as a principle. Obviously, as Commissioner
3 Mann says, legislation to put it in statute form,
4 but we feel there are many items which should not be
5 covered by statute because there should be this
6 flexibility of action on the part of the railways.
7 This is an item of principle that reflects both on
8 the revenue position of the railways and the cost to
9 the shipper and that should in fact be defined.

10 COMMISSIONER ANSCOMB: You will agree that
11 the less you get in statute form the better?

12 MR. MAURO: I certainly do, Commissioner
13 Anscomb. I certainly do. It creates rigidity,
14 yes.

15 Q. Now, Mr. Stechishin, I would like
16 you to discuss the matter of the mileage factor in
17 rate making.

18 -

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240. Distance is an important factor in rate making since there is a direct relationship between distance and the cost of performing transportation service. However, there is a danger in too rigid an adherence to any one factor to the exclusion of other considerations.

241. Early railways in the United States and Canada were planned to pass through existing communities and to minimize construction costs. Both these ends frequently led to a more circuitous route than justified by ideal operating considerations. The future cost of operating over the resulting longer mileage was not considered to be of sufficient importance to offset the primary considerations relating to construction and choice of route. Subsequently, because of increases in wages and prices of fuel and materials, operating costs assumed increasing significance and today are of major importance. One avenue open to the railways to reduce operating costs is through reduction of mileage by construction of cut-offs or straightening of curves. As long as rates are determined by a rigid adherence to mileage, the reduction of mileage through construction of cut-offs or straightening of curves must result inevitably in the reduction of rates. The reduction in track miles could result in rate reductions which might more than offset the savings effected in operating costs. Under these circumstances the railways will rarely



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2 achieve the full financial benefit which should result
3 from this means of reducing operating costs. The
4 following example illustrates the inter-relation between
5 these two factors.

6 242. The official mileage between Toronto and
7 Winnipeg is 1,207.1 miles via Canadian National
8 Railways. This mileage determines the rate between
9 Toronto and Winnipeg via the Canadian National
10 Railways and also via the Canadian Pacific Railway.
11 In addition, the rates from all other stations in
12 eastern Canada beyond Toronto on both railways are
13 determined on the basis of the Toronto-Winnipeg rate.
14 This is the key rate that the Board of Transport
15 Commissioners put in during the equalization case, and
16 the C.N.R. to Winnipeg being shorter than the C.P.,
17 it governs all east-west rates to Winnipeg. Let
18 us assume that the C.N.R. by the elimination of some
19 curves could reduce its mileage by a mere eight miles
20 to 1,199.1 miles. Since the resulting mileage of
21 1,199.1 miles is in a lower rate block, the combination
22 of the distance factor and the use of mileage blocks
23 in rate making would result in a reduction in all
24 rates between eastern Canada and Winnipeg, and also
25 in reductions to many other centres in western Canada.
26 The Canadian Pacific Railway, for competitive reasons,
27 must quote the same rates as the Canadian National
28 and would be compelled therefore to reduce its rates.
29 The result would be a pronounced adverse effect on the
30 revenues of both railways, far in excess of the savings



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2 in the operating costs of the one railway.
3 243. One way in which the railways can realize
4 the economies of a reduction in operating mileage
5 without a concomitant decrease in revenues is through
6 the introduction of what is known as the block
7 system for establishing rates. Under the block system
8 of rate making the territory to be served is divided
9 into geographic blocks and the rates between one
10 block and another are determined by the distance between
11 these blocks and not by the rail mileage between
12 particular points in each respective block. As
13 long ago as 1919 the Canadian express companies all
14 but abandoned track mileage in the setting of express
15 rates and adopted a block system whereby the country
16 was divided into rectangular blocks based on degrees
17 of latitude and longitude.

18 MR. MAURO:

19 "...Those parts of Canada which
20 are served by railways are divided into
21 approximately 800 'main blocks'. A main
22 block is half a degree of longitude and
23 of latitude each way. The length of each
24 block from north to south is constant,
25 approximately $34\frac{1}{2}$ miles. Its width is
26 roughly 23 miles along the 49th Parallel
27 but narrows a little along the parallels
28 of latitude north of the 49th and
29 broadens along parallels farther south
30 due to the sphericity of the earth and



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2 the meeting of the meridians at the
3 poles. Each block embraces some 794
4 square miles."

5 "All express points in Canada are
6 listed in alphabetical order by provinces in
7 a joint directory of Express Stations.
8 The name of each station is followed
9 by the number of its block and the letter
10 of its sub-block. This forms the key
11 to the tariff. The rates from one
12 block to another are based on weight,
13 mileage, and zone in the manner previously
14 described. On long hauls, mileage is
15 computed by taking the actual distance
16 along the shortest railway route from
17 the most important shipping point in one
18 main block to the chief centre of each
19 of the other main blocks. All shipping
20 points within a block take the same
21 rate, which, is that of the largest or
22 representative point of the block."

23 (A.W. Currie, Economics of Canadian
24 Transportation, 2nd Edition, Toronto, 1959,
25 pp. 359-60.)

26 MR. STECHISHIN:

27 244. The Railway Express Agency in the United
28 States uses a similar basis for rate-making. Recently,
29 the telegraph companies in Canada adopted the block
30 method for determining telegraph charges in preference



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2 to basing rates on physical mileage of plant.

3 245. Until recently the problem of the
4 relationship of mileage and rates has been one
5 resulting from the desirability of reducing rail
6 mileages. Following World War II a new aspect of
7 this problem is becoming more prominent. Rapid
8 developments in urban freight transport and new
9 concepts of structural design and engineering for
10 industrial and commercial plants have resulted in
11 the location of industries on the outskirts rather
12 than in the centre of metropolitan areas.
13 Construction of access roads between the new industrial
14 districts and the downtown areas has resulted in the
15 creation of numerous new level crossings on rail
16 lines and in substantial increases in vehicular
17 traffic on existing level crossings. These level
18 crossings impede the orderly flow of traffic within
19 the metropolitan area while the rail lines
20 themselves present serious obstacles to planned
21 metropolitan growth and expansion.

22 246. Grade separations are only a partial
23 solution to these problems since they depreciate
24 the value of adjoining real estate and in any event
25 are extremely costly. The federal government
26 recognizing the financial burden involved to the
27 railways, the municipalities and the provinces in the
28 construction of grade separations, has established
29 the Grade Crossing Fund to assist the interested
30 parties in defraying the cost of constructing these



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2 facilities. Studies which have been made by
3 municipalities, faced with the need for constructing
4 numerous grade separations, have indicated that even
5 with assistance from the Grade Crossing Fund, it
6 would be more economical to relocate a rail line
7 rather than to construct a series of grade separations
8 along that line. The municipalities cannot be
9 criticized for desiring to minimize costs by
10 relocating a rail line under such circumstances.
11 However, the relocation of lines almost inevitably
12 will result in a greater mileage to stations situated
13 on that line. With the rigid adherence to
14 track mileage in rate making, those stations would
15 find their rates increased. Shippers at these
16 stations also cannot be criticized for objecting
17 to an increase in rates resulting from the fact
18 that another municipality has persuaded the railway
19 to relocate its tracks rather than incur the expense
20 of numerous grade separations.

21 247. As long as rates continue to be based
22 on track mileage, either the larger municipalities
23 will have to bear the higher cost of grade
24 separations or the smaller municipalities will find
25 that their rates are increased without compensating
26 advantages. This dilemma would not arise if the
27 block system of rate making were in effect. Our
28 studies have not reached the stage where we would
29 desire to make a positive recommendation that the
30 block system be adopted for all rail freight rates in



1
2 Canada. Our preliminary investigation does indicate
3 that further inquiry should be made by the railways
4 and by this Commission into an alternative to the
5 present method of basing rates on track mileage.

6 COMMISSIONER MANN: Mr. Stechishin, before
7 you leave that subject -- and this brings up
8 something, I suppose, that goes right through your
9 submission -- I notice that throughout your brief
10 you, in the horizontal increase chapter, for instance,
11 and inter-line rates, lay a lot of stress upon
12 mileage rates, and this comes out here, too. Coupled
13 with that you seem to emphasize class rates, and so
14 on. Now, actually competitive forces tend to destroy
15 the mileage principle in rate construction, and this
16 is, as you know, increasingly so in the post-war
17 period.

18 Now, to what extent is it important to
19 do the things that you want done with regard to
20 mileage blocks, with regards to class rates based
21 on mileage, and with regard to commodity mileage
22 scales, and so on? Could you tell us why you lay
23 so much stress on the mileage principle of constructing
24 rates?

25 MR. STECHISHIN: The experience I have
26 had with the railways in the last few years indicates
27 that although they don't publish these specific
28 rates as mileage rates, the fact remains that in
29 negotiating with the railway almost invariably the
30 question of mileage is raised and the rate when it is



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2 established is frequently established as a percentage
3 of the prevailing class rate. Now, they don't
4 say
5 actually/so in the item as published, but in the
6 negotiations they will say, well, we will give you
7 85 per cent of Class 45 or 70 per cent of Class 45.

8 THE CHAIRMAN: It is just a yardstick.

9 MR. STECHISHIN: Yes, and it is because
10 of the yardstick we think that there should be more
11 emphasis placed on that yardstick.

12 COMMISSIONER MANN: Your feeling, then,
13 is that mileage is, in a sense, a key to the
14 construction of other rates.

15 MR. STECHISHIN: It certainly appears to
16 be.

17 COMMISSIONER MANN: Thank you very much.

18 COMMISSIONER BALCH: There is an inference,
19 Mr. Mauro, and Mr. Stechishin, in the question of
20 the cut-off and straightening of curves. When the
21 railroads built the line, the railway property, they
22 put in too many curves, or at least they didn't
23 as
24 straighten up the track/they should have done. Do
25 you think that is right? Don't you think they would
26 have taken the shortest route they could have?

27 MR. STECHISHIN: Yes, up to a point. But
28 I am quite impressed in reading the Railway Age
29 where it mentions this improvement of the rail roads,
30 and it is surprising how many of these were
eliminated in straightening the tracks. It is, I
think, an engineering aspect.



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2 MR. MAURO: I understand initially they
3 took a speed factor of the steam engine and balanced
4 that against the cost of the additional cut in
5 curvature degree, and now with the coming into
6 being of faster motive power the need for
7 reduction in curvature to realize the whole potential
8 of motive power and weight factors has been more
9 apparent; and, as I recall it, I think there has
10 been a considerable degree of reduction in curvature
11 on Canadian lines during the past few years.

12 COMMISSIONER BALCH: There probably is,
13 but I can hardly visualize there being much difference
14 which would make much difference in the mileage.
15 In so far as the cut-offs are concerned, if it
16 is a case of acquisition of property to do it, if
17 they have a great big curve and they want to cut
18 straight through, it probably would be expensive
19 to acquire the property; they may not get it.

20 MR. MAURO: Of course, they have the
21 right of expropriation. The point here that the
22 province of Manitoba is trying to make is that it
23 takes very little change to move it into a lower
24 range block, and under the present situation there
25 is no incentive to the railways to do this, and
26 if the C.N.R. reduces its mileage by even eight
27 miles, everybody's rate to Winnipeg and beyond
28 suffers therefrom.

29 COMMISSIONER BALCH: And now, as to
30 grade crossings, is it not a fact that in the early



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2 times it is true that there were not many roads;
3 then in later years the railways themselves have
4 been faced with the problem of the municipalities
5 building more roads and necessarily crossing the
6 railway?

7 MR. MAURO: That is one of the very
8 serious problems in urban and metropolitan development
9 today.

10 COMMISSIONER BALCH: I know they have
11 done in the past, but years ago when they built it
12 would be their responsibility to protect themselves
13 against the highways. Now they feel there are so
14 many highways being built, it is up to them to
15 protect them.

16 MR. MAURO: We have had instances in
17 Winnipeg where there have been miles of track taken
18 away so as to permit development, and this frequently
19 results in increased mileages both to shippers in
20 that urban area and to shippers outside who had
21 their mileage initially on the short direct route
22 through the city. But I do think it is one of the
23 social problems of an ever-expanding population.

24 THE CHAIRMAN: Suburbia.

25 MR. MAURO: Yes, it is one of the problems
26 of suburbia.

27 Q. Now, we have already made reference
28 in this submission to the bridge subsidy scheme
29 under the specific subject of inter-line rates. What
30 are your further comments on this subject?



MR. STECHISHIN:

248. The Turgeon Commission examined the cost of the long haul through Northern Ontario and concluded that it resulted in an undue burden on the shipper of western Canada. To alleviate the burden the Commission recommended that the cost of maintaining that "trackage" should be borne by the Federal Treasury and the resulting savings in operating costs were to be passed on to shippers through the medium of lower freight rates. The Commission did not recommend a mere reduction in rates but it proposed to reduce the total cost of transportation to western Canada by lifting out of that total a specifically designated portion of those costs. It should be emphasized that the costs removed from the rate structure are related to a specific length of track and bear no relation to the total length of haul of particular shipments nor to rates charged for such shipments.

249. The government of Manitoba took the position before the Board of Transport Commissioners that because the subsidy was based on a section of "trackage", the reduction should be the same for all shipments since all shipments subject to the subsidy traversed the same miles of track. The provinces of British Columbia and Alberta contended that the reduction should be a straight percentage of the rail rate and that the sole purpose of the subsidy was to reduce overall rates, not specific



costs. The Board did not adjudicate between the opposing points of view, but ruled that the reduction would be calculated one half by the volume of traffic moving over the bridge and one half by the freight rate assessed on that traffic.

250. Thus, the freight rate reduction was based partly on a specified number of cents per 100 lbs. reflecting the volume of traffic moving over the bridge and partly on a specified percentage of the freight rate reflecting the total freight charges on traffic moving over the bridge. As a result, if two shipments of the same commodity move on the same rate basis over the same "trackage", but one goes a thousand miles beyond the bridge, and the other only 100 miles beyond the bridge, the one travelling the greater distance beyond the bridge will get the greater reduction. Both receive the same reduction in cents per 100 lbs. and the same percentage reduction but since the one moving the greater distance bears a higher rate the percentage reduction is greater in cents per 100 lbs. For the same reason if two different commodities both travel the same distance over the bridge and the same distance beyond, the higher rated one will get the greater reduction in cents per 100 lbs.

Q. What limitations, if any, were set in the application of this subsidy?

MR. STECHISHIN:

251. It was stipulated that the bridge subsidy



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2 would apply only to class and non-competitive
3 commodity rates. There was mutual agreement that
4 certain traffic was to be exempted from the
5 reductions, such as grain and grain products, coal from
6 Alberta and British Columbia which is already
7 subsidized, competitive rated traffic, and
8 international traffic. On May 11, 1960, the Board
9 issued an ex-parte order deleting from the exceptions
10 to the bridge subsidy the following:

11 "Coal from Alberta and eastern
12 British Columbia to Ontario that is
13 subject to subsidized freight rates."
14 (General Order 861, 50 JORR, page 166).

15 This extension of the bridge subsidy deprives other
16 traffic of the full benefit which otherwise would
17 be available.

18 Q. What has been the effect of the
19 Board's decision to apply the subsidy on both
20 tonnage and rate?

21 MR. STECHISHIN:

22 252. The Board's initial decision to relate
23 the reductions to the rates rather than to limit
24 them to the tonnage has resulted in a number of
25 anomalies which we will now discuss.

26 253. Firstly, it has enabled the railways
27 to assess switching charges on east-west traffic
28 under the circumstances dealt with elsewhere
29 in this submission.

30 254. Secondly, the subsidy is being used to



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2 compensate shippers for their negligence in failing
3 to package goods properly. Under the rules of the
4 Canadian Freight Classification certain packaging
5 requirements are stipulated to minimize loss or
6 damage to the goods while in transit. Where these
7 packaging requirements are not met, the rate is
8 increased from 10 per cent to 50 per cent, as a
9 penalty against the shipper for his failure to comply.
10 For example, articles which are required to be
11 packed in barrels or boxes are assessed a 30 per cent
12 penalty if packaged in pails. Thus, if the article
13 properly packed took a normal rate to Winnipeg
14 of say \$3.50 per 100 lbs. the bridge subsidy would
15 reduce this rate by 32 cents. If this shipment
16 were packed in pails, the 30 per cent penalty would
17 raise the basic rate to \$4.55. The bridge subsidy,
18 because it is based on the total rate, is increased
19 from 32 cents to 36 cents.

20 Q. Under that situation the shipper
21 who actually does not comply is given a benefit; he
22 receives a greater reduction than the shipper who
23 abides by the rules?

24 MR. STECHISHIN: That is correct. He pays
25 a higher total charge, but the government is penalized
26 for his mistake.

27 255. Thirdly, the method of applying the
28 subsidy permits rates to be adjusted so that the
29 cost of transit privileges would be borne by the
30 government. The figures which follow illustrate that



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2 if the railways publish a storage in transit privilege
3 at Winnipeg instead of competitive rates from
4 Winnipeg to Saskatoon, for example, both the railways
5 and the shippers would benefit at the expense of
6 the government. Winnipeg is an important distributing
7 centre and the rate which the Winnipeg distributor
8 must meet or approximate is the through rate from
9 Toronto to Saskatoon. This is shown below:
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	<u>Shipper Pays</u>	<u>Govn't Pays</u>	<u>Railway Receives</u>
Toronto to Saskatoon (Class 45)	\$ 3.40	\$.33	\$ 3.73

The competition is
met at present as
follows:

Toronto to Winnipeg	2.52	.28	2.80
Winnipeg to Saskatoon	<u>.93</u>	<u>-</u>	<u>.93</u>
Total	\$ 3.45	\$.28	\$ 3.73

The sum of the rate to and from Winnipeg yields the same revenue to the railways as the through rate to Saskatoon (\$3.73), but the Winnipeg Shipper is obliged to absorb five cents per 100 lbs. to remain competitive with Toronto (\$3.45 versus \$3.40).

256. If storage in transit were extended to apply at Winnipeg on the same articles covered by the above rates, the following would be the result:

	<u>Shipper Pays</u>	<u>Govn't Pays</u>	<u>Railway Receives</u>
Toronto to Winnipeg	\$ 2.52	\$.28	\$ 2.80
Balance of through rate	.88	.05	.93
Transit charge	<u>.04 3/4</u>	<u>-</u>	<u>.04 3/4</u>
Total	\$ 3.44 3/4	\$.33	\$ 3.77 3/4

Because of the method of applying the Bridge Subsidy, this transit privilege would give the railways 4 3/4 cents more for performing exactly the same service, (\$3.77 3/4 - \$ 3.73), the shipper would receive a rate of 1/4 cents less (\$3.45 - \$3.44 3/4), and the government would cover the deficiency of five cents



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2 (\$.33 - \$.28).

3 257. Fourthly the application of the Bridge
4 Subsidy to combination rates reduces rates
5 established independently of those considerations
6 upon which the subsidy is based. Rates may be either
7 single factor through rates or they may be combinations
8 of two or more separately established rates. In
9 the latter case usually only one of these factors
10 covers the movements over the bridge trackage while
11 the other may be applicable over a route remote
12 from the bridge. For example, the shipment may move
13 from Toronto, over the bridge and on to Prince
14 George in British Columbia and then over the Pacific
15 Great Eastern, to some station on that railway. The
16 rate is quoted from origin to final destination and
17 must obviously be higher than the rate to Prince
18 George. The Bridge Subsidy would be greater on
19 the shipment to a point on the Pacific Great Eastern
20 not because it costs more to go over the bridge but
21 because it travelled on a railway which is 1,700
22 miles from the bridge and which is not even subject
23 to the jurisdiction of the Board of Transport
24 Commissioners.

25 258. Thus, if the normal rate to Prince
26 George is \$2.00 per 100 lbs., the reduction under the
27 Bridge subsidy would result in the shipper paying a
28 rate of \$1.76. If the rate from Prince George to
29 a point on the Pacific Great Eastern is \$1.00 the
30 shipper would not pay the additional dollar since



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2 the subsidy would now reduce the total rate of \$3.00
3 to \$2.71. In other words, the shipper would only
4 pay an additional 95 cents and the government would
5 pay five cents because this shipment moved over the
6 Pacific Great Eastern Railway.

7 COMMISSIONER MANN: I wonder whether
8 you could educate me just a little, Mr. Stechishin:
9 does this apply only on class rates -- because
10 PGE has joint class rates with other railways.

11 MR. STECHISHIN: It would apply, I presume,
12 under the new tariff rates.

13 COMMISSIONER MANN: Thank you.

14 MR. STECHISHIN:

15 259. The use of combination rates is not
16 restricted to traffic interchanged between two or more
17 railways. Combination rates frequently exist on the
18 line of one railway. For example, a rate of \$2.00
19 might be published to Winnipeg and another rate of
20 \$2.00 from Winnipeg to Lloydminster, the sum of
21 these two rates being lower than the through rate
22 to Lloydminster. As stated elsewhere in this
23 submission, the shipper could gain the benefit of
24 this combination by re-billing at Winnipeg. However,
25 as long as this combination was regarded as
26 consisting of two separate rates, the shipper only
27 obtained the bridge subsidy on the eastern factor
28 which in this instance would be reduced to \$1.76.
29 The western factor would be the same for both the
30 eastern shipper and the Winnipeg shipper. Should



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1
2 the railways permit the use of combinations to construct
3 a legel through rate, which they have now done, the
4 bridge subsidy would apply to the sum of the factors
5 rather than to the eastern factor only. In this
6 case the through rate is reduced from \$3.76 (\$1.76
7 plus \$2.00) to \$3.66 and the eastern shipper would pay
8 only an additional \$1.90 for the portion of the
9 movement west of Winnipeg. The Winnipeg shipper,
10 however, would continue to pay \$2.00 for the identical
11 movement.

12 MR. MAURO Q: What are your recommendations
13 in regard to the bridge subsidy, Mr. Stechishin?

14 260. In our view, the anomalies discussed
15 above could not occur if the bridge subsidy were
16 based on a specified number of cents per 100 lbs. or
17 ton. We submit that the bridge subsidy was not
18 designed:to enable the railways to assess switching
19 charges against some shippers; to relieve shippers
20 from penalty charges for improper packaging; to
21 enable the railways and shippers to obtain transit
22 privileges at the expense of the government; and to
23 assist the railways in making reductions on rates
24 wholly within western Canada. The province of
25 Manitoba therefore submits that this Commission
26 should recommend that the bridge subsidy be based on
27 a specified number of cents per 100 lbs. or ton,
28 reflecting the elimination of only those costs
29 associated with the specified trackage.

30 THE CHAIRMAN: But you are recommending



1
2 that it be continued -- the bridge subsidy?

3 MR. MAURO: Oh yes, we are not recommending
4 any change in this brief.

5 MR. FRAWLEY: You would rather have it
6 as it is than not have it at all?

7 MR. MAURO: I was hoping my learned
8 friend would support this.

9 MR. FRAWLEY: You can go to the Board
10 of Transport Commissioners. They can fix it up.
11 That is what I was going to say to Mr. Stechishin.

12 MR. MAURO Q: Finally, Mr. Stechishin,
13 I would ask you to deal with the subject of
14 transit privileges.

15 MR. STECHISHIN:
16 261. Few commodities are manufactured or
17 processed commercially at the same locality where
18 their raw materials are produced. For example,
19 grain is grown in one area, processed into flour
20 in another and the flour finally sold to the consumer
21 in still another area. There is a cost involved in
22 the transportation of the grain from the country
23 elevator to the flour mill, and an additional cost
24 involved in the transportation of the flour from
25 the mill to the consumer. The sum of these two
26 transportation costs is usually greater than the
27 cost of transporting either the grain or the flour
28 from the country elevator to the ultimate consumer.
29 262. The railways will sometimes offset this
30 additional expense by extending what is known as a



transit privilege. Briefly, a transit privilege may be defined as that practice which permits a commodity to be stopped in transit, processed in some manner, and then re-shipped to final destination, but with the transportation charges based as though the movement had been a single continuous movement.

263. For example, if a car of lumber were shipped from Vancouver to Calgary for dressing and then on to Winnipeg, the charges in cents per 100 lbs. would be based as follows:

(1) Without the transit privilege:

Vancouver to Calgary	72¢
Calgary to Winnipeg	<u>86¢</u>
Total	158¢

(2) With a transit privilege:

Vancouver to Calgary	72¢
Calgary to Winnipeg	<u>48¢</u>
Total Freight	120¢
Transit Charge	<u>2½¢</u>
Total	122½¢

The \$1.20 rate is the normal Vancouver to Winnipeg rate, and the 48 cents is determined by subtracting from the \$1.20 through rate, the 72 cents already paid for transportation to Calgary. A small charge of 2½ cents is added to the bill to cover the expense of the stop-off.

264. The principal advantage to the processor using transit privileges is firstly the lower rates



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2 and perhaps even more important the fact that all
3 processors located anywhere intermediate to the source
4 of raw material and the market pay the same total
5 freight charges. Without the transit privilege,
6 Edmonton, for example, would pay 82 cents from
7 Vancouver to Edmonton, plus 84 cents from Edmonton
8 to Winnipeg for a total of \$1.66 against Calgary's
9 \$1.58. Under the transit privilege both Edmonton
10 and Calgary pay the Vancouver-Winnipeg rate of \$1.20.
11 265. Transit privileges are also of benefit
12 to the carriers in that they permit a freer flow of
13 traffic and result in a wider diffusion of business.
14 One advantage to the carriers which is not generally
15 appreciated is the fact that the application of the
16 lower through rate is contingent upon the shipper
17 adhering to the prescribed routing from origin to
18 final destination. This ensures that the carrier
19 originating the traffic will get the movement from
20 the transit point as well, since the routing from
21 the point of origin to final destination is so
22 prescribed as to protect the optimum length of haul
23 to the original carrier. It is our submission
24 that if the railways were more liberal in the granting
25 of the transit privilege, they could retain a larger
26 share of the traffic from distributing and
27 processing points. This traffic is particularly
28 vulnerable to truck competition.

29 266. We have stated that one of the prime
30 advantages of the transit privilege to shippers is



1
2 that everyone located between the source of supply of
3 the raw material and the consuming market has the
4 same freight rate content in their costs. Conversely,
5 it follows that in the absence of transit privileges
6 certain intermediate shippers are at a disadvantage
7 since they do not have the same total transportation
8 costs from the same source of supply to the same
9 market.

10 123. Where no transit privileges exist, it is
11 usually found that the rate structure favors those
12 industries located at the source of supply or at the
13 market and is unfavourable to the development of
14 industries located at intermediate points. This
15 fact is graphically illustrated in a recent judgment
16 of the Board of Transport Commissioners dealing with
17 an application of the Alberta Phoenix Tube & Pipe
18 Limited, 48 JORR 83.

19 267. The following is an excerpt from page 85
20 of that judgment:

21 Without going into too much detail, this
22 shows the situation which existed in the case of
23 an Alberta pipe company which was in competition with
24 an eastern pipe manufacturer and a British Columbia
25 pipe manufacturer in the Vancouver market. The
26 evidence showed that the eastern manufacturer had
27 a total freight content in his finished product of
28 \$1.32 per 100 lbs., the British Columbia manufacturer
29 had a freight content of \$1.29½ per 100 lbs., and the
30 Alberta plant had a freight factor of \$3.16½ in their



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cost.

MR. FRAWLEY: The usual situation.

MR. STECHISHIN:

"In order to understand the difficulty,
it is necessary to set forth the rate
situation as shown on page 4 and 5 of the
formal application and as substantiated
in the evidence, as follows:

Welland, Ontario, plant:

Average inbound rate on skelp	\$.11
Loss factor - 10 per cent	.01
Pipe rate Welland to Vancouver (AC No.63)	<u>1.20</u>
Total transportation cost steel mill via Welland to Vancouver	\$ 1.32 per 100 lbs.

Port Moody, British Columbia, plant:

Average inbound rate on skelp (AC No.89)	\$.95
Loss factor - 10 per cent	.09 $\frac{1}{2}$
Pipe rate Port Moody to Vancouver	<u>.25</u>
Total transportation cost steel mill via Port Moody to Vancouver	\$ 1.29 $\frac{1}{2}$ per 100 lbs.

Edmonton, Alberta, plant:

Average inbound rate on skelp	\$ 1.70 $\frac{1}{2}$
Loss factor - 10 per cent	.17
Pipe rate Edmonton To Vancouver	<u>1.29</u>
Total transportation cost steel mill via Edmonton to Vancouver	\$ 3.16 $\frac{1}{2}$ per 100 lbs.



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1 In the case of the Welland, Ontario plant
2 the skelp comes from Hamilton, Ont. and has
3 been shipped at various rates averaging 11
4 cents per 100 lbs., ranging from a
5 competitive rate of 7 cents per 100 lbs., to
6 15 cents per 100 lbs., which is a normal
7 commodity rate, both published in tariffs
8 under the Railway Act. The pipe rates from
9 Welland to Vancouver of \$1.20 is an agreed
10 charge (C.T.C.(AC)No.63). The loss factor
11 will be omitted because it is not necessary
12 to a decision in this case.

13 So far as the Port Moody, B.C. plant
14 is concerned, the inbound rate of 95 cents
15 per 100 lbs. on skelp is an agreed charge
16 (C.T.C.(AC) No.89), while the rate on pipe
17 from Port Moody to Vancouver is a normal
18 rate under the Railway Act.

19 In the case of the Edmonton, Alberta
20 plant, the inbound rate of \$1.70 $\frac{1}{2}$ on skelp
21 consists of an average of commodity rates
22 under the Railway Act via all rail, lake and
23 rail, or rail, lake and rail, The pipe rate
24 of \$1.29 from Edmonton to Vancouver is the
25 normal rate under the Railway Act."

26
27 268. The Board found that the rate situation
28 did discriminate unjustly against the complainant,
29 and prescribed rates to and from Edmonton, the sum of
30



1
2 which were related to the total charges paid by either
3 Hamilton or Port Moody. If the transit principle
4 had been generally adopted, all three competitors
5 would have been assessed comparable rates and the
6 necessity for recourse to the Board of Transport
7 Commissioners would not have arisen.

8 MR. MAURO:

9 269. The Minister of Industry and Commerce for
10 the province of Manitoba presented to this Commission
11 during its regional hearings in Winnipeg the details
12 of an almost identical situation affecting a Manitoba
13 industry:

14 "A manufacturer of laminated
15 rafters in a Manitoba town indicated that
16 competitors in British Columbia enjoy a
17 preferred rate on shipments to eastern
18 Canada allowing them to ship the finished
19 product to that market for less than it
20 costs the Manitoba producer to bring in
21 his raw material from British Columbia
22 to Manitoba. The Manitoba manufacturer
23 is subject to a total freight rate --
24 including the cost of shipping both raw
25 material and finished product -- of \$3.43
26 per 100 pounds on his sales to the eastern
27 market, as against \$1.52 per 100 pounds
28 paid by his competitors in British
29 Columbia." (Daily Transcript, Vol. 32,
30 February 11, 1960, pages 4971-2).



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2 COMMISSIONER MANN: Mr. Stechishin, I
3 just wanted to raise a matter now without persuing
4 it at the moment. Talking about transit here,
5 generally, and transit, as we know, is a matter that
6 has a lot of features to it. There are various
7 kinds of transits. The transit you are dealing
8 with here essentially, as I understand it, is
9 fabrication or manufacture in transit which is not
10 too common in Canada. I just wanted to find out what
11 kind of transit you would favour -- whether you would
12 go so far as to allow manufacture in transit that
13 is not presently being done in Canada. Perhaps
14 you could give this some thought and answer some time
15 later.

16 MR. STECHISHIN: We were thinking here of
17 the principle of transit.

18 COMMISSIONER MANN: Yes, but you have gone
19 far beyond the present Canadian situation by dealing
20 with these laminated rafters, for instance, and so
21 on. I refer you particularly to transit, I think,
22 that exists on steel or lumber. Perhaps you will
23 give it some thought.

24 MR. STECHISHIN: Yes, all right.
25 270. If this Manitoba shipper were given a
26 transit privilege he would be able to compete on
27 equal terms with others in the same business. The
28 government of Manitoba has stated that the railways
29 should not be permitted to determine who shall and
30 who shall not be allowed to do business in any given



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market.

271. It is our view that the railways should so adjust their rate structure to ensure that all shippers along their lines have a reasonably equal chance to compete in a given market, taking into consideration inbound and outbound rates. If the railways fail to do this, the Board of Transport Commissioners should be directed to prescribe equitable rates in a manner consistent with the principle adopted in the Alberta Pipe Case, or the railways should be required to grant transit privileges.

MR. MAURO Q: And the final matter which you deal with, Mr. Stechishin, is this question of terminal switching: what have you to say on that question?

MR. STECHISHIN:

272. The present regulations governing the inter-switching of freight traffic at junction points of the railways have their origin in General Order No. 230 of the Board of Transport Commissioners dated May 17, 1918. On October 26 of the same year the then Chief Commissioner in referring to this Order made the following observation:

"The Board's General Order No. 230 changed the interswitching practice in that it compelled railway companies to give interswitching instead of merely extending it at certain points as a matter of grace and also threw open the



1
2 interswitching service, not only to
3 and from private sidings, but also to
4 team tracks." (8 J.O.R.R., page 402).

5 273. The regulations under this Order have
6 remained substantially unchanged to the present.
7 From the shipper's point of view, the primary feature
8 of the regulations was the requirement that the
9 railways were compelled to provide interswitching
10 service at a nominal charge up to four miles from the
11 point of interchange. Beyond four miles the railways
12 continued to be free to extend interswitching service
13 "at certain points as a matter of grace". It
14 would appear that the Board felt that there was no
15 need to compel the railways to provide interswitching
16 beyond the four mile limit probably because there were
17 few shippers at that time who would not be included
18 within this four miles limit.

19 274. During the intervening 42 years the factors
20 which led the Board to conclude that it was not
21 imperative to require the railways to provide inter-
22 switching beyond four miles have changed materially,
23 and in the case of the larger urban centres have
24 disappeared. Particularly since World War II,
25 revolutionary changes have taken place in the growth
26 and expansion of urban centres and in the location
27 of industries associated with these centres. Whereas
28 industries formerly sought to locate in the centre of
29 metropolitan areas, the trend today is increasingly
30



1
2 toward location on the periphery of such centres.
3 The regulations governing interswitching do not
4 distinguish between small and large centres. In
5 most of our large centres it has become extremely
6 difficult, and at times impossible, for industries
7 to obtain suitable sites which are located within the
8 four mile limit of interswitching. As a result,
9 these industries which have had to locate beyond
10 the four mile limit are incurring either higher
11 switching charges or additional local rates from the
12 point of interchange to the plant site. These
13 additional charges create an undue burden on
14 industries in the peripheral areas.

15 Q. Have any proposals been submitted
16 concerning this matter of terminal switching?

17 MR. STECHISHIN:

18 275. In its submission to this Commission at
19 the regional hearing in Winnipeg on February 10, 1960,
20 the Winnipeg Chamber of Commerce suggested four ways
21 in which this burden on industry could be alleviated.
22 We shall discuss each of the suggested means.

23 1. Increase the number of interchanges in
24 any urban area.

25 276. Upon cursory examination this would appear
26 to be the easiest method since it would entail no
27 change in the regulations, and interchanges located
28 less than eight miles apart would service all industries.
29 However, the cost of constructing such additional
30 interchanges can be high, especially in congested urban



1
2 areas, primarily because of the high cost of the
3 necessary land acquisition. In addition, an
4 interhenage requires as a minimum a tract of land
5 1,500 feet in length and 80 feet in width. The
6 withdrawal of land of these dimensions from the
7 downtown area presents serious obstacles to the free
8 movement of vehicular traffic.

9 2. Extend the switching limit, say
10 to six miles or else set it on some
11 sliding scale related to population
12 or the developed acreage in a city.

13 277. It would be a simple matter for the Board
14 of Transport Commissioners to order the extension
15 of the switching limit to six miles from the present
16 four miles but while this might be of some assistance
17 in the smaller centres, it would be of little benefit
18 to Canada's larger cities. Adoption of a sliding
19 scale based on population or acreage would appear to
20 be more equitable since it would distinguish between
21 these larger centers which require greater switching
22 limits and those small centres which do not. However,
23 any extension of the switching limits without direct
24 compensation to the carriers would have to be
25 reflected in the overall rate structure and the smaller
26 centres might then complain that their rates are
27 subsidizing switching costs in the larger centres.

28 3. Consider establishing the switching
29 area as a circle on the basis of an airline
30 mileage from the centre of the city or some



designated point.

278. Railway interchanges are rarely located in the centre of a metropolitan area. Usually such interchanges are located somewhere on the outskirts and industry is served by an indirect route which tends to bypass the developed areas. This proposal has the advantage of basing switching charges on the distance from the economic centre of the urban area rather than from some more remote point selected by the railways for operating convenience. It also does not penalize the shipper for any additional mileage occasioned by the more circuitous route determined by the railway for purposes of operating convenience. It may well be, moreover, that in some cases this longer circuitous route is less costly to the carriers than a more direct route through the city but the shipper is required to pay for the additional mileage.

4. Establish a switching tariff with the proviso that the line haul carrier would absorb the switching charge up to an amount equal to some specified percentage of the line haul charges.

279. The shipper's primary concern is with the extent to which switching charges are absorbed by the line haul carrier rather than with the total amount of such charges. If the line haul carrier were to absorb 100 per cent of the switching charges at all times, the shipper's concern with the method of determining these charges would be largely academic.



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2 In many cases more switching service is performed
3 by the line haul carrier delivering its own traffic
4 than by the combined switching of the line haul
5 carrier and the delivering carrier. In the first
6 instance the line haul carrier would assess no
7 switching charges while in the second it would absorb
8 none of the switching charges if the destination
9 were over four miles from the interchange: one-half
10 of the switching charges if the destination were
11 under four miles from the interchange and the point
12 of origin non-competitive: and all the switching
13 charges if the destination were under four miles from
14 the interchange and the point of origin competitive.

15
16 ----Short recess.
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THE CHAIRMAN: Order, please.

MR. MAURO: Mr. Stechishin, you were at
paragraph 280.

MR. STECHISHIN:
280. Under the fourth proposal of the Winnipeg
Chamber of Commerce a switching tariff would be estab-
lished ensuring the switching carrier of a reasonable
return for the services performed. The line haul
carrier would then absorb all or a part of the switch-
ing charges depending upon the revenues received
from the line haul. For example, assume the switch-
ing tariff is based on a charge of \$3 per car per
mile. Assume further, that the percentage of the
switching charges to be absorbed by the line haul
carrier were 10 per cent. The following table
shows the switching charges, the absorption by the
line haul carrier and the charge to the shippers for
representative distances from the interchange
on shipments with illustrative line haul charges.

Table 24

Distance from Interchange		Line Haul Charge			
		<u>\$50.00</u>	<u>\$100.00</u>	<u>\$200.00</u>	<u>\$300.00</u>
1 Mile	Switching Charge	3.00	3.00	3.00	3.00
	Absorption	<u>3.00</u>	<u>3.00</u>	<u>3.00</u>	<u>3.00</u>
	Charge to Shippers	nil	nil	nil	nil
2 Miles	Switching Charge	6.00	6.00	6.00	6.00
	Absorption	<u>5.00</u>	<u>6.00</u>	<u>6.00</u>	<u>6.00</u>
	Charge to Shippers	1.00	nil	nil	nil
3 Miles	Switching Charge	9.00	9.00	9.00	9.00
	Absorption	<u>5.00</u>	<u>9.00</u>	<u>9.00</u>	<u>9.00</u>
	Charge to Shippers	4.00	nil	nil	nil
4 Miles	Switching Charge	12.00	12.00	12.00	12.00
	Absorption	<u>5.00</u>	<u>10.00</u>	<u>12.00</u>	<u>12.00</u>
	Charge to Shippers	7.00	2.00	nil	nil
5 Miles	Switching Charge	15.00	15.00	15.00	15.00
	Absorption	<u>5.00</u>	<u>10.00</u>	<u>15.00</u>	<u>15.00</u>
	Charge to Shippers	10.00	5.00	nil	nil
6 Miles	Switching Charge	18.00	18.00	18.00	18.00
	Absorption	<u>5.00</u>	<u>10.00</u>	<u>18.00</u>	<u>18.00</u>
	Charge to Shippers	13.00	8.00	nil	nil
7 Miles	Switching Charge	21.00	21.00	21.00	21.00
	Absorption	<u>5.00</u>	<u>10.00</u>	<u>20.00</u>	<u>21.00</u>
	Charge to Shippers	16.00	11.00	1.00	nil
8 Miles	Switching Charge	24.00	24.00	24.00	24.00
	Absorption	<u>5.00</u>	<u>10.00</u>	<u>20.00</u>	<u>24.00</u>
	Charge to Shippers	19.00	14.00	4.00	nil
9 Miles	Switching Charge	27.00	27.00	27.00	27.00
	Absorption	<u>5.00</u>	<u>10.00</u>	<u>20.00</u>	<u>27.00</u>
	Charge to Shippers	22.00	17.00	7.00	nil
10 Miles	Switching Charge	30.00	30.00	30.00	30.00
	Absorption	<u>5.00</u>	<u>10.00</u>	<u>20.00</u>	<u>30.00</u>
	Charge to Shippers	25.00	20.00	10.00	nil



1
2 Table 24 shows, down the left hand column
3 the distance from interchange at either one mile, two
4 miles, three miles, up to ten miles. We say if
5 the line haul charge is \$50, \$100, \$200, or \$300,
6 under the proposition here, we are not limiting ourselves
7 to \$3 per mile for switching or to the ten per cent.

8 This is just to illustrate the principle.
9 But let us take a shipment of four miles, for example,
10 where the line haul charge is \$100, the shipper would
11 pay \$2 for the switching. The line haul shipper would
12 pay \$10 of the \$12 which the switching carrier receives,
13 and the switching carrier would receive his \$12 for
14 performing the switching service. If the switching
15 required is greater, the shipper would be required to
16 pay an additional amount. If the line haul charge
17 was greater, the shipper would pay a smaller amount
18 in switching charges.

19 281 This proposal can be made effective
20 consistent with the adoption of any of the three previous
21 proposals. It has the merit of equity in that it
22 would require the line haul carrier, which has received
23 the greater revenue from line haul carriage, to
24 share a portion of that revenue by absorbing all or
25 a portion of the delivery cost, with the switching
26 carrier. On the other hand, it preserves the revenue
27 of the line haul carrier who has received a lesser
28 revenue for his services.

29 282. This proposal is consistent with the principle
30 now found in switching tariffs which provide that no



required to reduce its line haul revenue below a specified figure.

This is a quotation from the Switching Tariff:

"The line haul revenue between shipping point and destination shall not be reduced below \$18.00 per car, unless the current tariff rate makes a lower charge.

Illustration:-

A car with freight charges of \$22.50 upon which connecting line's switching charge is \$12.00, we -- that is, we the railways -- will absorb only \$4.50, leaving the line haul point of origin to destination revenue of \$18.00. The balance of connecting line's switching charge, namely, \$7.50, will be collected in addition to the freight charges."

(Page 46, C.N.R. W 220-G).

283. The fact that a particular shipment is between competitive or non-competitive points should have no influence, in our view, on the matter or on the amount of the absorptions by the line haul carrier. We submit that this latter proposal, coupled with a more equitable basis for switching charges as enumerated in any one of the first three proposals of the Winnipeg Chamber of Commerce, best meets the conditions and needs of present day industry and at the same time safeguards the revenue position of the railways.



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2 MR. MAURO: Mr. Chairman, that completes
3 the major submission of the province of Manitoba.
4 Included in that submission has been the brief placed
5 before this Commission in February by the Premier of
6 Manitoba, which outlined in comparative detail what we
7 have presented here today.

8 Then, the brief of The Honourable Gurney
9 Evans, Minister of I^Ndustry and Commerce, touching
10 on various matters of development in provinces such
11 as Manitoba; the brief of Dr. Morton, which set out the
12 Manitoba Government's approach to this matter of
13 national policy in transportation matters, and the
14 submission of the Minister of Agriculture on the impact
15 of freight rates on the agricultural communities. All
16 of these we respectfully submit for your consideration,
17 Mr. Chairman, and I would ask Mr. Stechishin now to
18 answer the questions of the Commissioners and my learned
19 friends.

20 THE CHAIRMAN: Mr. Cooper?

21
22 CROSS-EXAMINATION BY MR. COOPER:

23 Q. Mr. Stechishin, I should like to refer,
24 first, to the third paragraph of your Chapter I as
25 contained on the first page of your submission. That
26 Chapter I is entitled "Inequities in the Freight Rate
27 Structure."

28 In that paragraph 3 is a statement:

29 "The matter of national economic policy
30 is not within the purview of this precis

of evidence."



I refer you to page 6 of the submission where national economic policy is mentioned. I refer you to page 66 of the submission where again mention is made of national economic policy, in paragraph No. 148 in these words:

"These recommendations we submit will make possible the realization of national economic policy in regard to the movement of goods by water on the Great Lakes waterway system, particularly in its effect on the economy of Manitoba and that of the other prairie provinces."

I should like to mention and refer you to the evidence presented to the Commission by the Premier of Manitoba, and particularly the transcript at pages 4200 and 4201. I am not going to read what the Premier said there, but briefly he did put the question of national economic policy in the forefront of matters to be decided and considered, if not decided, by this Commission; and also he gave a definition of national economic policy.

In view of the references to which I have referred to national economic policy in your submission and to the dominant position of this phase in the terms of reference as developed by Premier Roblin, would you please explain why you make the statement in the submission that the matter of national economic policy is not within the purview of this source of evidence?

MR. STECHISHIN: Mr. Cooper, it was my impression in the preparation of this brief that the



1
2 question of national economic policy had been dealt with
3 adequately at Winnipeg, particularly in the submission
4 of Professor Morton. And, as a traffic man I felt it
5 would be going beyond that for which I have been trained
6 to discuss national economic policy in a general sense.
7 What I tried to do here was to develop the inequities
8 in the framework of what apparently had been established
9 as national economic policy, rather than to propose
10 changes in such policy.

11 Q. You refer to Dr. Morton's evidence, and
12 for the purposes of the record that is contained in
13 Volume No. 30 commencing at 4409. Would it be correct
14 to say, nevertheless, Mr. Stechishin, that what you have
15 to say in this submission relating to inequities in the
16 freight rate structure is nevertheless set within the
17 framework of national economic policy?

18 MR. STECHISHIN: Yes, I think that is correct.

19 Q. I might add set within that framework as
20 established by Premier Roblin in his submission in
21 Winnipeg and by Dr. Morton?

22 MR. STECHISHIN: Yes, that is right, yes.

23 Q. You have on page 2 of your submission a
24 statement that there are four basic principles which
25 operate to set the levels of railway rates in Canada.
26 You go on to deal with these principles in turn, and
27 in paragraph 6 you have an illustrative Table 1. The
28 A part of that table deals with one car of commodity A
29 and one car of commodity B. The B part of the
30 table increases the number of cars, as does the C part



1
2 of the table.

3 I notice that in each case you have variable
4 cost at \$700 per car. Would not the variable cost
5 lessen as the volume of the commodities being shipped
6 in carloads increase?

7 MR. STECHISHIN: I think probably in a general
8 -- I am not a cost man, mind you, but I think in general
9 what you say is true. But if these cars, ten separate
10 cars shipped in ten different parts of the country,
11 instead of one car in one part of the country, I cannot
12 see it would have any serious effect on the cost of the
13 car. If it was shipped in one train, yes.

14 Q. Assuming for the moment that ten cars
15 were shipped in the one train, there might be a material
16 difference in the variable cost which you there have at
17 \$750 per car? It might be materially less under those
18 circumstances?

19 MR. STECHISHIN: I was trying to illustrate
20 the general proposition here that an increase in gross
21 revenue does not necessarily result in an increase in
22 net revenue. That is what I was trying to illustrate
23 here, and not taking the specific car or a specific
24 movement.

25 Q. But when you illustrate that proposition
26 by tables, and when you assume for the purposes of your
27 illustration that variable costs will remain constant,
28 and when in fact variable costs might not remain con-
29 stant, then would it be a fair suggestion that the
30 tables lose their probative value, if they have any,



1
2 being merely illustrative tables in this matter?

3 MR. STECHISHIN: I do not think that the
4 variable costs would vary sufficiently to make that
5 difference merely because of an increase in volume.
6 The total cost per car would vary because then the
7 constant cost is spread over more cars. But the whole
8 principle of variable cost is that this is what it costs
9 you to ship one car.

10 Q. But I would have thought, and I think
11 that you have already agreed -- you will correct me if
12 I am wrong -- that if a greater number of cars are
13 shipped in one train then the variable cost of each
14 car would go down?

15 MR. STECHISHIN: Negligibly.

16 Q. I would have thought it would have been
17 somewhat more than a negligible decrease, but your
18 answer is ---

19 MR. STECHISHIN: If they are one train?

20 Q. Oh, yes.

21 MR. STECHISHIN: In that specific case, yes.
22 They would go down because trainload rates are lower per
23 car than the single car rates, but if they were on
24 ten separate trains then it would be negligible.

25 Q. On the fourth page in paragraph 14 you
26 refer to, and I am quoting:

27 "Value of service in the traditional sense
28 refers to the rate level which would yield
29 the maximum net revenue to the carrier."

30 Now, I am quite frank to confess, Mr. Stechishin, that



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2 I have found this expression "value of service" used in
3 several senses, and I should like you to tell the
4 Commission just in what sense you are using the
5 expression. Are you using it in the sense of value
6 of the commodity; in the sense of value to the shipper;
7 or, just what?

8 MR. STECHISHIN: The value of service in the
9 general sense.

10 Q. Is that the same sense as the traditional
11 sense?

12 MR. STECHISHIN: Well, yes and no. Value
13 of service meant one thing in terms of rates when the
14 railway had a monopoly position and another thing today.
15 Now, you could take the same meaning out of the term
16 for both periods, excepting that you would wind up
17 with substantially different rates.

18 Q. What did it mean when the railways had
19 a monopoly position?

20 MR. STECHISHIN: When the railways had a
21 monopoly position, the value of service was that level
22 of rates which would yield the maximum net revenue to
23 the carrier.

24 Now, it still means that, but at that time the
25 determination of that value was by what the shipper was
26 willing to pay to move the commodity by rail. And, in
27 the absence of moving by rail, he would have to either
28 abandon the traffic completely -- today, although it is
29 still his maximum, what the shipper will pay, it is
30 no longer determined by whether the shipper can ship by



1
2 rail or refuses to ship at all. He has now an alter-
3 native form of carriage. It has merely taken that
4 value of service and reduced it.

5 But the basic concept is still the same. This
6 means what a shipper was prepared to pay when taking it
7 by rail.

8 Q. You are saying it means the same, really,
9 but when the railways were in a monopoly position there
10 was no alternative; now, there is an alternative method
11 of carriage and that may have an effect on the level of
12 value of service, and that represents the difference
13 between the two?



1
2 MR. STECHISHIN: That is right. A shipment
3 moving under competitive rates is still subject to the
4 value of service, but the value has now been determined
5 not by the shipper's ability to reach a market but
6 by the shipper's ability to use another form of trans-
7 portation. You have the value of an article at the
8 point of shipment and the value of that article at the
9 destination. Now, there was presumably a greater
10 spread between them because of the greater number of
11 ways it could be shipped to that destination, but if
12 another shipper uses a truck to that destination the
13 value at that point is reduced and the first shipper
14 can't pay any more or he won't sell it in that
15 market. The value of service has come down, but it
16 is still the same basic concept that has to be deter-
17 mined.

18 Q. So it remains the same, the traditional
19 sense is still there, but there are now perhaps different
20 tests to determine where it is. There are two tests:
21 one, how much a shipper can afford to pay rather than
22 not ship at all; and secondly, the other test would
23 have been introduced by the competitive factor.

24 MR. STECHISHIN: Yes, I think that is a
25 correct summary.

26 COMMISSIONER MANN: The principle underlying
27 is not charging what the traffic will bear.

28 MR. STECHISHIN: That is a negative approach;
29 it is not charging what the traffic can bear.

30 MR. COOPER: Q. Can the whole matter be



1
2 summed up that way, Mr. Stechishin?

3 MR. STECHISHIN: I can't think of an objection
4 to summing it up that way at the present time.

5 THE CHAIRMAN: That is a neat way of summing it
6 up.

7 MR. STECHISHIN: Paragraph 16, on page 5, Mr.
8 Cooper, more or less sums it up in what we have been
9 discussing:

10 "Thus, while the 'value of service'
11 theory continues to determine the level
12 of rates which will yield the maximum
13 net revenue to the carrier, the value
14 of service is no longer determined by
15 the 'ability to pay' of the commodity,
16 but rather by the rates charged by
17 competing media of transport or by
18 the cost of the shipper performing the
19 service himself. Only where no
20 effective competition exists is the
21 value of service determined by the
22 ability to pay."

23 And that is the ability of the commodity to pay.

24 MR. COOPER: Q. That is why I was inter-
25 ested in the value of the commodity when I commenced
26 discussion of this subject, Mr. Stechishin. It comes
27 in in the monopoly situation, but now perhaps not to
28 be of validity.

29 MR. STECHISHIN: The value of the commodity
30 has only an indirect influence on the ability to pay.



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If you have a \$10 article and its ability to pay is only a dollar, it is less important to a \$10 article than it is to a dollar article.

5

Q. That is still of some validity.

6

MR. STECHISHIN: There is some validity to it.

7

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Q. Now, at page 6, in paragraph 19, after having gone through the four principles, or principal factors in rate making, you say:

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"While the foregoing are the basic principles considered in the setting up of the rate structure, the over-riding principle is that of national policy and public interest. Therefore, in order to assess whether or not there are inequities in the present freight rate structure, as this Commission has been directed to ascertain by the Governor in Council, we must look to those present practices which tend to depart materially from the principles above enunciated, or which are in conflict with or tend to frustrate national economic policy."

24

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Now, we have heard a great deal throughout our hearings up to date, Mr. Stechishin, of national policy, national interest and national economic policy, and so on. Are you using the terms "national policy" and "public interest" there as being synonymous in paragraph 19?

29

30

MR. STECHISHIN: I think the public interest is national policy; yes, I think they are synonymous.



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2 It may not be stated national policy.

3 MR. MAURO: I don't want in any way to
4 interrupt the cross-examination, but perhaps I might
5 save my learned friend some time by saying that wherever
6 Mr. Stechishin uses the term "national policy" or
7 "public interest" it is used in the same sense as in
8 the Premier's submission and Dr. Morton's submission
9 in Winnipeg.

10 COMMISSIONER MANN: Mr. Mauro, the phrase
11 "public interest" may be different from the sense in
12 which the Board of Transport Commissioners uses it
13 from time to time in certain cases. The public interest
14 is the interest of the public of Canada rather than the
15 interest of a particular public locality.

16 MR. MAURO: We have used it in a sense that
17 we have defined, and it appears at page 4201 of the
18 daily transcript:

19 "Q. What definition does the province
20 of Manitoba give to this phrase
21 'national economic policy'?

22 "A. 'National economic policy' in
23 Canada has evolved since Confeder-
24 ation to meet the needs of the
25 nation under changing circumstances.
26 A definition of 'national economic
27 policy' is not to be found in any
28 one statute. It can be determined,
29 however, by reference to the pronounce-
30 ments and statements of the federal



1
2 government and our successive
3 Prime Ministers since 1867. While
4 it would be presumptuous to offer a
5 single statement in definition of
6 'national economic policy,' we submit
7 that it might be summarized generally
8 as a policy or plan, or preferably
9 as a series of policies or plans
10 the object of which was to secure
11 the development of Canada for all
12 Canadians. National economic
13 policy has been concerned with
14 national development, with the
15 utilization of our resources with
16 a view to improving the standard
17 of living of all Canadians regard-
18 less of geographic location. This
19 definition stresses the development
20 of Canada for all Canadians; it
21 emphasizes the utilization of our
22 natural and human resources to improve
23 the well-being of all Canadians in all
24 regions of the country.

25 "It is the submission of the
26 province of Manitoba that in its
27 fullest application 'national economic
28 cpolicy' in Canada since 1867 has
29 aimed consistently at fostering and
30 promoting the development of the various



1
2 regions of Canada for the benefit of
3 the entire nation. It has never been
4 the intention that one area of the
5 country should be preferred at the ex-
6 pense of another area."

7 And then he refers to the construction of the railways.

8 MR. COOPER: My only purpose, Mr. Chairman,
9 in dwelling on these phrases at all is that the Commission
10 has to consider what these phrases mean when the time
11 comes to write the report. They are used a great deal,
12 and I was merely endeavouring to obtain what assistance
13 I could or what assistance it is considered proper
14 that I should obtain from Mr. Stechishin on this point.

15 Q. Now, I notice that the phrase 'public
16 interest,' for example, does not appear to be used in
17 Premier Roblin's submission, at least in that section
18 of it as just read by Mr. Mauro, and in order that I may
19 understand the submission clearly, is there anything,
20 Mr. Stechishin, you can say with respect to, for example,
21 this phrase "public interest", or shall we look for the
22 meaning of "public interest" entirely in the submissions
23 that were made in Winnipeg?

24 MR. STECHISHIN: I am reading from page 4201
25 of Volume 29 of the transcript. This is Premier
26 Roblin's answer under direct examination:

27 "It is clear that the governing
28 phrases of the terms of reference estab-
29 lishing this body are 'national economic
30 policy' and 'public policy', and that



1
2 these phrases, for this purpose, are
3 synonymous."

4 Q. Now, in the last part of paragraph 19
5 you mention the problem of assessing whether or not
6 there are inequities in the present freight rate structure
7 as being, first an inquiry as to whether these four
8 basic principles or any one of them have been violated,
9 and, secondly, is the structure or are the present
10 practices contained in the structure in conflict with
11 or tending to frustrate national economic policy?

12 Now, I take it that your four factors or principal
13 factors which you have enunciated are subordinate,
14 are they, to national economic policy or national policy
15 and public interest as you have used those phrases?

16 MR. STECHISHIN: I would think that the first
17 two are subordinate to and the third and fourth
18 express it. The third and fourth principles are pretty
19 well lifts from the Railway Act.

20 Q. The third principle, public policy, as
21 evidenced by the Railway Act?

22 MR. STECHISHIN: Yes.

23 Q. I thought you said a few moments ago that
24 there might be public interest or public policy which is
25 not contained in any statute?

26 MR. STECHISHIN: There may be some, but I
27 don't think there is any statute that doesn't contain
28 public interest.

29 Q. But in so far as it is not contained in
30 a statute, and if we have ascertained that it is in the



1
2 public interest, then that consideration prevails, does
3 it, over your first and second principles?

4 MR. STECHISHIN: Yes, over the first and
5 second principles it would.

6 Q. Would you say, Mr. Stechishin, that it
7 would or would not be in the public interest that the
8 railways in Canada should be maintained in a financially
9 healthy condition?

10 MR. STECHISHIN: I think that the Manitoba
11 position has always been that the railways should always
12 be maintained in a healthy position.

13 Q. I will turn to page 7, and you have
14 already gone through the diagram there to which reference
15 is made on that page in paragraph 21. The diagram is
16 now A of Exhibit 153. Now, in your direct evidence
17 you said that that diagram was meant to illustrate
18 the four principal factors in rate making as you have
19 given them in your evidence. I should just like you
20 to take that diagram and take the four principles in
21 turn and just tell the Commission how the diagram
22 illustrates each one of those four principles. There
23 may be some repetition in this, but I would like the
24 Commission to have a clear understanding of this 153A.

25 MR. STECHISHIN: Well, actually the diagram
26 is showing the relationship of the four principles or
27 the impact of the four principles on rates. I don't
28 think I can answer your question in the way you put it,
29 follow each one across. I will try to do so. The
30 value of service, the first principle mention ---



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2 Q. The first principle mentioned, "the
3 floor or lowest level of rates is set at a level which
4 will return to the carrier an amount equivalent to,
5 but not less than the variable costs of providing the
6 said service."

7 MR. STECHISHIN: That is the solid line
8 starting at 60 on the left hand column and with the two
9 steps, as it were, in the line. What I tried to show
10 here was that the variable cost of service is subject
11 to change, that it may be at a level of 60 and then
12 would go up with increased cost to some other figure,
13 and each time the cost increases the variable cost
14 itself of moving traffic would increase.

15 Q. The variable cost of service line as
16 you have it there represents the floor or lowest level
17 of rates below which rates shouldn't be allowed to
18 fall; is that correct?

19 MR. STECHISHIN: That is right, sir.

20 Q. Let us go to the second principle.

21 MR. STECHISHIN: The second principle is
22 the value of service. We have put it here as \$1.20
23 to start with, and it runs in a straight line right
24 across. The point we are trying to illustrate there
25 is that the value of service does not vary with a
26 freight rate increase, or does not necessarily vary with
27 a freight rate increase. If it is worth a dollar to
28 make a shipment today and tomorrow the railways get
29 an 18 per cent or 20 per cent increase, it is still
30 only worth a dollar to me to ship those goods.



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1
2 Q. I would have thought that the forces of
3 competition would have become more marked with a 20
4 per cent increase followed by another 20 per cent
5 increase as indicated on Exhibit 153A, and that might
6 have an effect on the value of service line and therefore
7 that line doesn't remain constant throughout.

8 MR. STECHISHIN: That doesn't change the
9 value of service. If I am shipping something to Vancouver
10 and I am competing with somebody in Japan in the Vancouver
11 market, the ocean rate doesn't change and that ocean rate
12 determines the selling price in Vancouver. Now, I can
13 meet that from Winnipeg to Vancouver, but if the rail
14 rate goes up 20 per cent or 40 per cent, I would still
15 have to meet that. The value of service has not in-
16 creased to me; I still have to meet that.
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2 In the newer concept of value of service,
3 if the steamship rate went up, then the value of
4 service for me by rail would then go up.

5 Q. Well, I think that is what I am
6 perhaps trying to get at.

7 MR. STECHISHIN: And I think, possibly,
8 the last portion of this diagram does show that the
9 railways have received permission under this last
10 section to increase their rates to a level above
11 the value of service.

12 Q. Yes.

13 MR. STECHISHIN: But I would not then
14 pay the maximum permissive rate. I would only pay
15 that which the service is worth to me. Then we
16 have what Mr. Edsforth referred to as attrition
17 in the rate structure, because although the railways
18 have authority to increase the rates it is useless
19 for them to do so because I will not be able to pay
20 it, and the railways must assess something less.

21 THE CHAIRMAN: Might that go up by
22 inflation?

23 MR. STECHISHIN: Oh yes; this is assuming
24 a constant dollar. I could not show inflation
25 as well on a diagram of this nature. All the
26 lines would in that case.

27 COMMISSIONER GOBEIL: It is on account
28 of competition that the last part does not go up?

29 MR. STECHISHIN: Competition in the broader
30 sense. It may be carrier competition or some other



1
2 type of competition.

3 COMMISSIONER PLATT: The value of service,
4 as I understand it, does vary with time, but the
5 variation is not related to the variable cost to the
6 railway?

7 MR. STECHISHIN: That is right, it does
8 not vary with the railway cost. It may vary with
9 costs divorced from the railway. It may vary with
10 an increase in the selling price in the market I
11 am trying to reach. It may vary with the weather.

12 MR. COOPER Q: I think that is clear now,
13 thank you, Mr. Stechishin. Let us take the
14 third basic principle: "The third basic principle or
15 factor governing the level of rates is that established
16 by public policy as evidenced by the Railway Act."
17 Can you relate that third principle to your chart
18 here?

19 MR. STECHISHIN: Yes. Under the terms
20 of the Railway Act -- not directly under the terms
21 of the Railway Act, but in accordance with the
22 Railway Act, the Board of Transport Commissioners
23 does set the ceiling. It sets the maximum permissive
24 rates the railways may charge. That ceiling on
25 rates does go up from time to time and has gone down
26 in one or two cases, but it does go up usually when
27 the railways come forward and say that their total
28 costs have increased. When the railways establish
29 that their costs have increased and that the maximum
30 permissive level is now too low, the Board then will



1
2 grant the railways authority to raise that permissive
3 level.

4 Q. Your third principle is related
5 to the line "maximum permissive rate"?

6 MR. STECHISHIN: That is right.

7 Q. And to any other lines on your
8 diagram?

9 MR. STECHISHIN: Well, the point I did
10 want to make was that the maximum permissive rate
11 may be below the value of service. As a matter of
12 fact, if it were not below it there would be no
13 point in having rate regulation. However, it may in
14 some cases be above the value of service in which
15 case it becomes ineffective in so far as regulating
16 the railways is concerned, and, as a matter of fact,
17 it may be said today possibly 95 per cent of the
18 rail rates are below that maximum level, that the
19 class rates are the maximum permissive rate -- that
20 is set by the Board -- and all the other rates not
21 at class rates are below the maximum permissive
22 level. They are somewhere in the shaded portion
23 of this chart.

24 Q. Take your fourth principle, being
25 the "further restriction imposed by the national
26 authority that no rate set by the railways, be it
27 higher than the variable costs and below the ceiling
28 set by the value of service or by the regulatory
29 agency, should unduly prejudice or discriminate as
30 between shippers." Have you any comment with respect



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2 to that principle considered with relation to
3 diagram 153-A?

4 MR. STECHISHIN: That, again, I have shown
5 here as a straight line across the diagram, and this
6 is not something that generally applies to the
7 rate structure. It will apply to specific rates.

8 Q. You are referring now to minimum
9 non-discriminatory rates?

10 MR. STECHISHIN: Yes, and if the railways
11 for one reason or another will reduce a rate for
12 one shipper to a given market and another shipper
13 complains that because of that rate reduction he has
14 lost business into that market and he is discriminated
15 against, he will file an application with the Board
16 protesting against the discriminatory rate.

17 Q. Provided it is unjustly discriminatory?

18 MR. STECHISHIN: Yes, he has to establish
19 that. If he does establish it, the usual
20 procedure with the Board is to tell the railways
21 that they must either reduce this shipper's rates
22 to the same level, or they must raise that rate
23 which is complained against. The general result
24 is that that rate is raised. So, it may for
25 practical purposes be regarded as a minimum.
26 Shippers don't complain so much that their rate
27 is too high. They complain that somebody else's
28 is too low. This happened in the lumber case not
29 too long ago, and I think it is in the record that
30 the Canadian railroads said they would try to get the



American rates raised. British Columbia shippers were complaining the American rates were too low into the central Canadian market in comparison with the Canadian rates, and the railways were given the option of either getting the American rates raised or lowering the Canadian rates, and that frequently happens.

Q. Well, in any event, it is the lowest rate which is non-discriminatory as between shippers?

MR. STECHISHIN: That is right. They can't go below that rate. In the latter portion of the diagram I tried to show if the variable costs were above that minimum rate, then the railways must charge or should charge no less than the variable costs even though it might result in apparent discrimination.

COMMISSIONER GOBEIL: Before you leave this diagram, variable costs and maximum permissive rate would increase as you indicate: why should not the two always be parallel? For instance, you start between variable costs and maximum permissive level with 30 and then you end up with over 40 difference between the two.

MR. STECHISHIN: That, basically, is the horizontal percentage method of increasing rates. The railways say, "We have a ten per cent increase in costs", so they get a ten per cent increase in rates rather than a sum of money equivalent to what



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2 that ten per cent represented. I might give
3 a clearer illustration of this last portion of this
4 variable cost of service. The railways have
5 published for years these grain rates which we have
6 heard of in the course of this Commission. Those
7 rates were put in to meet certain competition from
8 American ports, but if these rates are below cost
9 they should be raised even though they would put
10 the Canadian shipper at a disadvantage with an
11 American shipper, because we are losing money on
12 that rate, and it should be raised to the out-of-pocket
13 costs rather than consider this element of
14 discrimination.

15 MR. COOPER Q: Your latest remarks
16 are merely directed to the righthand side of 153-A
17 where the gap is shown between minimum non-discriminatory
18 rate and variable cost of service, with the minimum
19 non-discriminatory rate being lower than the variable
20 cost?

21 MR. STECHISHIN: That is right; only
22 when that situation occurs. It is rare, I must
23 confess.

24 Q. I want to move on to your section
25 dealing with horizontal percentage rate increases
26 and a further point in that section. I have already
27 referred to paragraph 21, which is, as a matter of
28 fact, within the section, but I move now to
29 paragraph 23 on page 8. You say in paragraph 23
30 on page 8:



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2 "It is also important to note that
3 while costs have increased less with
4 respect to line haul costs than terminal
5 costs during the post-war period,
6 horizontal percentage increases tend
7 to increase the charges related to
8 line haul disproportionately to terminal
9 costs."

10 I just want to ask you, what is the source
11 of your statement as to the disproportionate increase
12 of costs as between line haul and terminal costs?

13 MR. STECHISHIN: It is the result of quite
14 a bit of extensive reading in the last few years. I
15 could get some specific references to answer that
16 question. I understand from reading some of the
17 material that is now being prepared for this Commission
18 that that statement is made and will appear in
19 evidence, if it has not already appeared. I would
20 have thought someone has already said this.

21 Q. Well, someone may have and I may have
22 missed it, but I am trying to get on the record now
23 any specific reference you have in support of that
24 statement?

25 MR. STECHISHIN: I will certainly get
26 some. I don't have it with me at the moment. I regard
27 this as more or less generally understood. I will
28 have to dig out the references that did actually say
29 so. I think Mr. Edwards said it.

30 THE CHAIRMAN: Dieselization has encouraged



1
2 this?

3 MR. STECHISHIN: That is right. I
4 think Mr. Edwards made that statement while on the
5 stand, but I am not positive.

6 MR. COOPER Q: Yes, he may have. If he
7 did, I can't recall whether it was a general
8 statement or not. Dieselization and central traffic
9 control you have pointed to in paragraph 23 as
10 being factors which have pulled down line-haul costs
11 in relation to terminal costs -- perhaps I should
12 not say "pulled down": the rate of increase has not
13 been as great as in terminal costs?

14 MR. STECHISHIN: That is right.

15 Q. On page 10 you refer in paragraph 27
16 to an excerpt from Tariff CFA 74-A effective February
17 11, 1952, and particularly the gravel building and
18 sand building in bulk or open top cars -- that is
19 in sub paragraph (f); and stone crushed or screens
20 in bulk or open top cars, sub paragraph (g). I
21 understand that, as a matter of fact, the Board
22 took out these rates as given in (f) and (g) after
23 complaints had been received from various persons;
24 is that correct?

25 MR. STECHISHIN: Well, they were in the
26 tariff when it was first published. I wasn't too
27 interested in the particular movements at the time.
28 It may be correct. I would have to check my
29 tariffs to make sure.

30 Q. Well, I am told the complaints were



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made and as a result of such complaints on February
the fourth, 1952 the Board took out (f) and (g).

MR. MAURO: On February the 4th?

MR. COOPER: Yes, February the 4th, 1952.

MR. MAURO: The tariff wasn't published
until February the 11th.

MR. COOPER: I realize that is so, but
it is a difference in the effective date. The order
to which I have reference is ---

MR. MAURO: Oh, we will accept your
statement.

MR. COOPER: It is Order No. 78213 and
is dated February 4th, 1952.

---Luncheon adjournment.



1
2 --- On resuming at 2.00 p.m.

3
4 THE CHAIRMAN: Order, please. Mr. Cooper?

5 MR. COOPER: Thank you, Mr. Chairman.

6 CROSS-EXAMINATION BY MR. COOPER (resumed):

7 Q. Mr. Stechishin, before the luncheon
8 adjournment we were discussing subparagraphs (f) and
9 (g) in paragraph 27 on page 10. For the purposes
10 of the record, I would like to call your attention to
11 the Judgment of the Board in the latest 17 per cent
12 Case. The Judgment is dated November 17, 1958.
13 The reference is J.O.R. & R., Volume 48, No. 16A.
14 In the course of the Judgment of the Board, these words
15 appear, and I quote ---

16 MR. STECHISHIN: What page?

17 Q.. This is page 14 in the pamphlet copy:

18 "We also established a maximum increase
19 of 10 cents per 2000 pounds on building
20 sand and gravel and 20 cents per ton
21 on crushed stone and stone screenings only
22 to be assailed immediately by the crushed
23 stone producers that their product was
24 competitive with gravel. We promptly
25 cancelled these exceptions so that a
26 uniform increase applied thereto, evidently
27 to the satisfaction of those concerned as
28 no further complaint was made."

29 I merely wish to have that on the record. If you
30 have any comment with respect to it, Mr. Stechishin,



perhaps you will make it now?

MR. STECHISHIN: This excerpt you have just read does not say whether they reduced the increase on the sand and gravel to that on the stone, or whether they cancelled it entirely. I would have to check the tariffs before I could answer that.

Q. They cancelled it entirely, I am instructed, Mr. Stechishin, on both, and the 17 per cent applied on both.

COMMISSIONER MANN: As I recall it, Mr. Stechishin, the increase never came into effect because the Board cancelled the section before the tariff became effective.

MR. COOPER: That is so, and that accounts for what Mr. Mauro considers was a confusion of dates this morning.

Q. Mr. Stechishin, I want to turn back to a matter I overlooked, if you don't mind. Would you go back to page 9, table 2?

In that table you have variable cost at \$600 per car with respect to ten cars of commodity A and ten cars of commodity B, down to the point where you have the line excess contribution of commodity A. That is line 7?

MR. STECHISHIN: Yes.

Q. Then, there appear the words "All rates subjected to a 20 per cent increase". And on line 9 appear the words "variable costs at \$600 per car." And on line 12, "variable costs at \$600 per car."



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In view of the fact that at that point there would have been a 20 per cent increase, would not the variable cost then have gone up, as indeed is suggested and illustrated diagrammatically in Exhibit 153A?

MR. STECHISHIN: That is correct, Mr. Cooper. It is an oversight on our part in preparing the table. However, it makes no difference whatsoever to the conclusions drawn. If we assumed that those costs had gone up, say, to \$720, which would be the 20 per cent increase, the figure in the \$1 column to the right would then be \$1500 under A and \$300 under B, and the difference would still be \$1200.

Q. You mean to say that if variable costs increase it does not make any difference at all to the calculations?

MR. STECHISHIN: Not to the calculations; not to the relationship. You would have \$7200 in the first case from \$8700, for a \$1500 difference. And from \$7500, \$300 from \$1500 is \$1200 ---

MR. MAURO: The relationships remain the same?

MR. STECHISHIN: That is right.

MR. COOPER: Q. I go along now, Mr. Stechishin. to page 11, paragraph 30:

"One of the principal reasons for the establishment of this Commission, therefore, was for the purpose of investigating and recommending a solution to this major inequity of horizontal percentage rate increases."



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2 I am suggesting, Mr. Stechishin, that it might be more
3 accurate there to repeat, rather, the terms of reference
4 than to state what you have done.

5 The terms of reference as contained in
6 Appendix I to Exhibit 153 mentions as A --

7 "(a) Inequities in the freight rate
8 structure, their incidence upon the
9 various regions of Canada and the legis-
10 lative and other changes that can and
11 should be made in furtherance of national
12 economic policy to remove or alleviate
13 such inequities."

14 I am suggesting, Mr. Stechishin, that under that wording
15 it is open to the Commission to find, if it sees fit,
16 that horizontal percentage rate increases do not in
17 fact constitute inequities in the freight rate structure?

18 MR. STECHISHIN: I find that difficult to
19 accept, Mr. Cooper, because paragraph 29, immediately
20 preceding that section, is a quotation from the Minister
21 of Transport, wherein he discussed in one breath the
22 17 per cent horizontal increases and in the very next
23 breath the appointment of the Commission, indicating to
24 me, at least, that in his mind the two were very closely
25 related.

26 Q. Perhaps we are getting into a legal question
27 here as to the interpretation of the terms of reference,
28 but I would suggest they are self-contained and speak for
29 themselves, and there is no specific mention of horizontal
30 rate increases.



1
2 MR. MAURO: There is no question about that,
3 Mr. Chairman. I might repeat that that was not Mr.
4 Stechishin's statement, but a statement of counsel. I
5 read in all of page 11, and this will be a matter to
6 be argued as to interpretation.

7 MR. COOPER: Q. On page 13, paragraph 35:
8 "The flat increase per 100 pounds
9 (or ton) which is the opposite to the
10 horizontal percentage increase method
11 created similar problems. In the
12 case of the horizontal percentage increase
13 method, the problems created bear on
14 the long haul shipper. In the case
15 of the flat cents per 100 pounds method,
16 the problems created bear on the short
17 haul shipper, but in the case of the short
18 haul shipper the railways have recognized
19 the need for exemptions."

20 You go on to paragraph 36, and you state that the one
21 major exception to this general statement occurs on
22 so-called transcontinental traffic between British
23 Columbia and Eastern Canada, A and B groups and east
24 thereof.

25 Is it suggested here, Mr. Stechishin, that
26 there is a direct connection between the horizontal
27 percentage increases and these rates, in the sense of
28 one being an exception to the other? I suggest that
29 they are two separate subjects and that in the one case
30 we have the matter of horizontal percentage increases



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2 and in the other case something quite different --
3 competitive rates?

4 MR. STECHISHIN: Not necessarily, Mr. Cooper.
5 If you refer again to Exhibit 153-A, the British
6 Columbia rates, to a greater degree than other parts
7 of Canada, are in this last category. That is the
8 right hand side of that page.

9 Q. What are you referring to?

10 MR. STECHISHIN: Exhibit 153-A.

11 Q.. 153-A. Oh, yes.

12 MR. STECHISHIN: That is right, and the
13 maximum permissive rate is higher than the value of
14 service to British Columbia in many cases, so that
15 the railways are unable to recover from those long haul
16 rates or the transcontinental rates, and the railways
17 find it is necessary for them to publish a competitive
18 rate to British Columbia. This has been done in many
19 cases, and, as I suggest here, in more cases than it
20 has been done to other parts of Canada.

21 Q. Are you suggesting that the transcontinen-
22 tal rates, then, are in fact an exception to the horizon-
23 tal percentage increase method or system? To me,
24 they are different. One is one subject, and, in the
25 other area, you have got a number of rates to which
26 you cannot apply the horizontal percentage increase at
27 all, but there is no question of the railways making
28 an exception to the system of horizontal percentage
29 rate increases in the transcontinental competitive
30 rates.



1
2 MR. STECHISHIN: Mr. Cooper, all of the
3 various rates are very closely interrelated. I recall
4 the remarks of one of the chief commissioners of the
5 Interstate Commerce Commission who compared the rate
6 structure to a bowl of jelly; you couldn't touch it
7 in one place without it having an effect on the other.
8 I cannot think of the two as being completely divorced.
9 They are related. And it was the percentage increase,
10 not just this postwar, but even before that the increases
11 themselves, which put the B.C. rates beyond that which
12 the shipper was prepared to pay, primarily due, I
13 suppose, as we say here, to the fact that he could
14 use the American railroads whose rates, in turn, were
15 reduced by the American steamship companies.

16 COMMISSIONER MANN: But, Mr. Stechishin, the
17 ex parte increases in the United States have raised the
18 American rate level, and surely that must have had an
19 influence on the transcontinental rates in the United
20 States. So that, ever since the ex parte 175,
21 or if you want to take it back that far, the American
22 rate level must have risen. So that it is your con-
23 tention that the Canadian transcontinental rate level
24 has risen in cognizance with the American level?

25 MR. STECHISHIN: I would not go so far as
26 to say in cognizance. Transcontinental rates have
27 gone up; unquestionably, transcontinental rates have
28 gone up. In some cases they may have gone up as
29 much percentagewise as the class rates transcontinental
30 but they are still lower by and large, and to the extent



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2 shown by the Waybill Analysis, 80 per cent of that
3 traffic is not affected by the Canadian horizontal
4 percentage increases.

5 COMMISSIONER MANN: If I may just pursue
6 this for one minute, I notice this is brought out on
7 Table 3, page 14, of your submission. You have there
8 44 competitive rated cars. I suppose those are the
9 cars that move from the coast on eastern Canada on
10 Canadian Freight Association tariff 1-N, I think it is.

11 MR. STECHISHIN: On competitive rated
12 cars?

13 COMMISSIONER MANN: Yes.

14 MR. STECHISHIN: Not entirely, but very largely
15 in 1-N.

16 COMMISSIONER MANN: Almost exclusively in 1-N
17 from eastern Canada. The other is

18 MR. STECHISHIN: There may be some specific
19 commodity tariffs covering that traffic as well.

20 COMMISSIONER MANN: What I was coming to,
21 Mr. Stechishin, 1-N, in your experience, has taken the
22 increases ---

23 MR. STECHISHIN: 1-N, 1-M has been reissued.
24 I knew the 1-M better than the 1-N.

25 COMMISSIONER MANN: It was made subject to
26 Canadian increases?

27 MR. STECHISHIN: Yes.

28 COMMISSIONER MANN: So when we are talking
29 about holddowns -- if you want to use that phrase in
30 its loose context, as I am using it here -- your



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2 contention of the exception of the British Columbia
3 rate really relates more to the 101 cars that moved
4 under agreed charges?

5 MR. STECHISHIN: As far as the shipper is
6 concerned, it matters not what you call the rate. He
7 had a rate of so much, and he did not take the full
8 increase because of some form or another of competition.
9 Now, it does not matter whether you refer to it as an
10 agreed charge or a competitive rate. What we are
11 saying here is that the impact of horizontal increases
12 was less on British Columbia because of the fact that
13 some of the traffic was subject to competition. Now,
14 the question of whether it is an agreed charge or
15 competitive rates was merely the method by which they
16 met that competition.

17 COMMISSIONER MANN: I understand that position.
18 I was really seeking information relating more specifi-
19 cally to Table 3, where you have a percentage of 84 per
20 cent in the case of British Columbia respecting traffic
21 from eastern Canada. You say:

22 "Relief from the full impact of hori-
23 zontal percentage increases."

24 What I wondered about was the 44 cars which you show on
25 Table 3 as being competitive-rated cars, and presumably
26 subject to Canadian Freight Association Tariff 1-N
27 perhaps take the increases. You see, if they did, then
28 your final percentage is less than 84 per cent.

29 MR. STECHISHIN: Not necessarily, again. In
30 the first place, we have to consider why these rates were



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2 put into 1-N. They may not have been in 1-N at the
3 start of the period and later on they were put into
4 1-N, for competitive reasons. Having been put into
5 1-N, they took the increase. There may have been
6 some of those. I do know from the Canadian Pacific
7 Railway Exhibit which has been entered, the yieldstick
8 formula, so called -- the railways admitted they could
9 only get 50 per cent of the increase on competitive
10 traffic, and the net figure on agreed charges is
11 something less than one per cent.

12 MR. MAURO: Mr. Stechishin is referring to
13 an exhibit filed by the Canadian Pacific Railway
14 in the 17 per cent Case, and also an exhibit in this
15 case too.

16 COMMISSIONER MANN: I think I have the
17 information I wanted, thank you.

18 MR. COOPER: Q. My only purpose in putting
19 the question as I did, Mr. Stechishin, was to clear up
20 a point in my mind as to whether you are saying that
21 competitive rates, which was really what these trans-
22 continental rates are, as I understand it, constitute
23 an exception to the system of horizontal percentage
24 increases, or are merely a body of rates
25 which by force of circumstances cannot take the hori-
26 zontal percentage increases.

27 MR. STECHISHIN: They are a form of exemption,
28 because when they find that they cannot take the full
29 increase, the railways then publish competitive rates.

30 Q. I think I understand what your point is.



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2 Thank you.

3 Page 15, paragraph 30, the first sentence
4 there reads:

5 "American railroads, by and large, are
6 regional railways."

7 In your view, would it be desirable in Canada to have,
8 if not regional railways, at least regional systems
9 of rates in the west?

10 MR. STECHISHIN: There has been on a number
11 of occasions proposals made to various bodies, inves-
12 tigating bodies in Canada, for what they refer to as
13 regional accounting. I have heard that term used. And
14 in this particular brief, the Manitoba Government has
15 not taken a position on the specific point you are
16 raising. It is a subject which is large and which
17 would require a tremendous amount of study. I do not
18 think I could at this time commit myself one way or
19 another as to the desirability of it. It has advantages;
20 but it also has disadvantages.

21 Q. The Manitoba Government takes no position
22 in the matter, then?

23 MR. STECHISHIN: Not on that matter, no, sir.

24 Q. Page 16, the very last line on the page,
25 paragraph 45:

26 "The railways have stated that market
27 competition is not recognized within
28 Canada."

29 Would you just give us the source of that statement?

30 MR. STECHISHIN: I would have to dig it out,



1
2 sir. I distinctly remember the evidence. It appears
3 in Mr. Robert's testimony. I remember it very well.

4 Q. I am of the impression the statement
5 was made, but I would like to have a direct reference
6 to it.

7 MR. STECHISHIN: I have it underlined in
8 red. I remember the statement very well.

9 Q. Thank you very much. Would you turn
10 to page 86; in paragraph 47 you refer to shippers with
11 intermediate hauls. Now, there was some discussion
12 with the Chairman yesterday as to what constituted a
13 long haul and what constituted a short haul, and now
14 you have used this expression "intermediate haul".
15 Perhaps you could just go over that matter again and
16 indicate clearly to the Commission what you consider
17 to be a short haul, an intermediate haul, and a long
18 haul?

19 MR. STECHISHIN: I am rather on safe ground
20 there because I said nothing under 200 miles could be
21 considered a long haul, and nothing over 1000 miles
22 could be considered a short haul. Therefore, anything
23 between the two must be intermediate.

24 Q. Well, I just wanted to put that question
25 to you as to intermediate hauls to see if, on reflection
26 you would reiterate what you said yesterday and conclude
27 that an intermediate haul must be from 200 to 1000.

28 MR. STECHISHIN: It is a relative term, Mr.
29 Cooper. In the case of transcontinental traffic,
30 where Vancouver is 2800 or 2900 miles from Toronto



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2 and Montreal, and Winnipeg is 1200 or 1300 miles,
3 I would say that Winnipeg was in that case the
4 intermediate in relation to that longer movement.
5 However, the 1200 mile haul by itself, I think,
6 would be considered a long haul.

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2 COMMISSIONER MANN: I suppose that these
3 definitions are subject to modifications in the
4 text, because I would think that, for instance,
5 the mileage Toronto-Montreal, which is 335, would
6 fall clearly within the intermediate definition,
7 and one tends to question whether or not the burden
8 of the increases in the post-war period has fallen
9 unmitigatingly on this 335.

10 MR. STECHISHIN: There is the factor
11 that you have the water parallelling the entire
12 movement in this case. The intermediate term,
13 long-haul term, is a relative term, and must be
14 compared with something at the same time. It is
15 a comparison of hauls rather than a specific mileage.

16 MR. COOPER Q: Page 19 in paragraph 49
17 it states:

18 "The formula which the province
19 of Manitoba wishes to present for
20 consideration is as follows: in the
21 absence of the necessary cost data
22 we have assumed that, for purposes
23 of exposition increased costs experienced
24 by the railways are evenly divided
25 between terminal and line-haul costs."

26 You go on from that and base your formula
27 on that assumption. You use the percentage part
28 of the formula to cover line-haul and the flat rate
29 increases to cover terminal costs; is that correct?

30 MR. STECHISHIN: That is correct.



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2 Q. Why should the percentage part of
3 the formula cover the line-haul and the flat rate
4 increases the terminal costs? It might be suggested
5 that it might even be the other way around?

6 MR. STECHISHIN: The reason there is that
7 the terminal cost, the average terminal cost, let's
8 say, is the same for a long haul shipment as for a
9 short haul shipment. Now, it doesn't matter whether
10 in between those two you have travelled one thousand
11 miles or one hundred miles; you still have the
12 switching at origin and switching at destination.
13 It is constant per shipment.

14 Now, the line-haul cost varies with the
15 length of haul, and the rate itself is the combination
16 of this constant factor of terminal costs plus a
17 variable factor of line haul costs plus the terminal
18 haul. Now, it would be incorrect to increase the
19 one hundred mile haul by cents per hundred pounds the
20 same as for the thousand mile haul, but it would be
21 accurate to increase the cost represented by terminal
22 in the rate the same as for the one hundred mile haul
23 as for the one thousand mile haul because they both
24 have terminal services.

25 COMMISSIONER MANN: One difficulty I have
26 is that I don't quite know what happens to the
27 intermediate terminals in this. Take a short haul
28 movement which has two terminal costs in the pure
29 sense of the word, say, thirty mile haul and no
30 intermediate terminal at all, and then compare that



1 to a two thousand mile haul which has six or seven
2 intermediate terminal operations. Where do you put
3 these intermediate terminal charges? Do you put
4 them into the line-haul?
5

6 MR. STECHISHIN: We haven't attempted to
7 separate the line-haul from the terminal. We made
8 an arbitrary assumption of 50-50. The United States
9 practice is to lump all charges together under
10 terminal. They have a constant factor added in of
11 interchange costs, so that would vary with the length
12 of haul, yes.

13 COMMISSIONER MANN: So in this definition
14 the intermediate terminal would be ascribable to what
15 you call terminal costs?

16 MR. STECHISHIN: Not necessarily. They have
17 this reflected in the line-haul costs.

18 On page 94, Table 23, these are line-haul
19 costs. Now, you will notice the fourth column shows:
20 "Less Interchange", and then I have marked it not
21 applicable, because traffic in Canada is not
22 interchanged between one railway and another. So
23 that is included in line-haul rather than in terminal,
24 in the United States practice at least.

25 COMMISSIONER MANN: Thank you very much.

26 MR. COOPER Q: At page 20, Mr. Stechishin,
27 paragraph 51 ---

28 MR. MAUO: Before that question, Mr. Cooper,
29 my learned friend Mr. Sinclair requested some
30 information as to the calculation of this particular



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2 formula, this 3.5 cents plus the ten per cent increase.
3 In the transcript I said to him we will see if we
4 will make it available. It is available. I don't
5 want to delay Mr. Cooper's examination; I just wanted
6 to tell the Commission it is there.

7 MR. COOPER: Perhaps I can just put the
8 question and then you can determine whether or not you
9 want to put in what you now have.

10 Q. "Tests which have been made of
11 the unrestricted application of this formula to the
12 rates on the very short haul traffic and to low grade
13 commodities moving at low rates indicate that some
14 qualification in the application of this formula may
15 be necessary in order to maintain traffic flow".

16 Now, my question is simply: what tests have
17 been made and with what results?

18 MR. STECHISHIN: Well, Mr. Cooper, if I
19 might refer here to Exhibit No. 153-D and the first
20 page of 153-E, the first page of each exhibit, and
21 make some comparisons, I think possibly I can answer
22 your question.

23 Q. Thank you, Mr. Stechishin.

24 MR. STECHISHIN: Having determined this
25 formula we then felt it would be useless to present
26 it without making an actual check to see if it was
27 realistic or not, and what we did was we went through
28 the Waybill Analysis and selected major movements of
29 commodities in large quantities. We also did this for
30 the province of Manitoba independently of the whole of



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2 Canada, and the first one shown in 153-D is copper,
3 nickel, ore and concentrates presently moving at
4 an average of 3.2 cents. Now, I haven't used fractions
5 of a cent in Exhibit 153-E; but let's assume that that
6 rate is three cents. If we apply the formula without
7 the modification, the increase shown in the last
8 column of 153-E is 3 3/4 cents. That rate would
9 go from three cents to 6 3/4 cents.

10 Q. I follow you.

11 MR. STECHISHIN: We felt it was an
12 unrealistic increase at least to put in at one
13 particular time. True, we have had a one hundred per
14 cent increase altogether, but it has come in in
15 steps where it could be digested; but to hit
16 industries all at one time was not realistic. We
17 felt that some modification had to be made, and the
18 modification we have put in is the result of that
19 conclusion. Under the modification a rate of
20 three cents would go up by 1 1/4 cents, which is a total
21 rate of 4 1/4 cents; still pretty heavy, I admit, but
22 still less heavy than the formula and not much
23 heavier than the 20 per cent increase. The 3.2
24 cent rate goes up with the modification under our
25 formula to 4.5 cents and without it to 3.8; the
26 discrepancy or the additional impact is only .7 cents.
27 That, we felt, was not too much to expect industry
28 to absorb, assuming that the railways must have
29 the additional funds. At the same time it was
30 more than they would be getting under the straight



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2 flat increase.

3 Q. You might at this point just go
4 through the actual steps by which you arrive at your
5 modification.

6 MR. STECHISHIN: That is spelled out right
7 in the text, sir. This again, I admit, is an
8 arbitrary figure. The formula cuts it in half and
9 the modification doubles the percentage. Now, we
10 are not tied to that.

11 Now, it says:

12 "Thus a low grade, low rated
13 commodity moving at a rate of say ten
14 cents before the increase would be
15 subjected to the lower of either a
16 40 per cent increase which would represent
17 four cents or the formula which might
18 provide for 3.5 cents plus a ten per
19 cent increase or a total of 4.5 cents.
20 In this illustration the increase would
21 be limited four cents."

22 That is illustrated on the tenth line
23 of Exhibit 153-E. The ten cent rate would take an
24 increase of two cents, and at ten per cent plus 3.5
25 cents as modified to four cents, and without the
26 modification $4\frac{1}{2}$ cents.

27 Q. Let's take your first item in 153-D,
28 copper, nickel, ore and concentrates. You start with
29 a rate of 3.2.

30 MR. STECHISHIN: That is right.



1 Q. That is under ten cents, so you are
2 going to apply your modification formula to it.
3

4 MR. STECHISHIN: The formula is not limited
5 to ten cents. If the modification produces a
6 higher rate than the formula, then the formula
7 governs -- the lower of the two.

8 THE CHAIRMAN: Heads I win, tails you lose.

9 MR. STECHISHIN: I wouldn't want to put
10 it that way, no.

11 MR. COOPER Q: Copper, nickel, ore
12 and concentrates is 3.2. Where does your 40 per
13 cent increase figure come in there? Do you apply
14 40 per cent increase to it and then apply your 3.5
15 cents and ten per cent to see which is the lower?

16 MR. STECHISHIN: Yes. The 40 per cent
17 increase would be 1.28.

18 Q. Well, it doesn't matter as long as
19 we have the method. What was puzzling me was where
20 you got the 40 per cent increase. That was just
21 an arbitrary figure you have taken.

22 MR. STECHISHIN: Yes. This formula
23 we believe could not be put into effect without the
24 Board of Transport Commissioner having additional
25 information from the railways, which they do not
26 have. With that information they could determine
27 whether it was 40 per cent, 45 per cent, 15 per
28 cent, or ten per cent.

29 Q. What would that information be?

30 MR. STECHISHIN: It would require a



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2 separation between terminal costs and line-haul costs,
3 which today is not available.

4 Q. And that's it?

5 MR. STECHISHIN: Pretty well.

6 Q. What would be the effect of truck
7 competition when you have a flat cent increase --
8 if I may put it this way -- a formula increase on
9 the short haul shipper?

10 MR. STECHISHIN: It would depend on the
11 rate that was in existence prior to the increase
12 and also after.

13 Q. But as I understand your method
14 as contrasted with the present method, the short haul
15 shipper is going to bare more now.

16 MR. STECHISHIN: The long haul shipper
17 bears more now. But it has the same effect one way
18 or the other.

19 Q. But wouldn't the competition be
20 felt more on the short haul shipper? The railways
21 lose more revenue by the adoption of your method.

22 MR. STECHISHIN: I fail to see why that
23 should follow. I question whether it would follow.
24 If a trucker is going to compete he is more interested
25 in the dollar and a half increase than he is in the
26 two cent increase.

27 Q. Except that the haul may be beyond
28 the capabilities of the truck by its very length.

29 MR. STECHISHIN: I would like Mr. Hume
30 to admit that any haul would be beyond the limitations



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2 of the trucks.

3 Within the province of Ontario -- if I
4 can refer to Exhibit 154 -- traffic within Ontario
5 is 4,458; that is page 1 of that exhibit. Now, if
6 we compare that figure with page 28 ---

7 Q. I am sorry, Mr. Stechishin, what
8 was your first figure there? That is on page 1?

9 MR. STECHISHIN: Yes, moving from Ontario
10 to Ontario.

11 Q. 4,458?

12 MR. STECHISHIN: That is right. 4,458 cars
13 short haul traffic, moving within Ontario.

14 Now, if you turn to page 28 of the same
15 exhibit, again under Ontario to Ontario we find that
16 mine products are 2,369 cars or more than 50 per
17 cent of that traffic, and that is not the type of
18 traffic which is generally admitted the trucks are
19 looking for.

20 Now, page 56, the commodity competitive
21 rates by carloads, we find that there are 1,356
22 cars moving within the province of Ontario competitive,
23 and the agreed charges which appear on page 61
24 shows 677 carloads within eastern Canada. That
25 totals a little over 2,000 cars of the 4400, indicating
26 that a little less than half of that traffic is
27 competitive today.

28 COMMISSIONER MANN: If you look at
29 Exhibit 153-D, Mr. Stechishin, the first page, your
30 Table II-2A, the seventh item from the bottom,



1 waybill classification 799, Manufactures and
2 Miscellaneous, Ontario to Quebec, Mileage 337;
3 in other words, roughly Toronto to Montreal. The
4 rate is roughly the rate under the trailer van
5 system of rates. Now, that was not increased in
6 the last 17 per cent increase. If your formula
7 should require an increase above the 17 per cent
8 increase it becomes even more unrealistic than the
9 17 per cent straight horizontal increase.
10

11 MR. STECHISHIN: Except that under this
12 formula it would be a lesser increase.

13 COMMISSIONER MANN: I was expecting you
14 to say that, and therefore I would like you to refer
15 to items on the same page shown under gasoline. It
16 is in the fourth column from the top there.

17 MR. STECHISHIN: Ontario to Ontario?

18 COMMISSIONER MANN: No, Saskatchewan
19 to Saskatchewan, Alberta to Alberta, classification
20 No. 501, gasoline in both cases, and in the first
21 one, Saskatchewan to Saskatchewan, the average
22 haul is 155 miles, in the second case, Alberta to
23 Alberta, the average haul is 174 miles. Both
24 of these movements to my knowledge are taking
25 place now under agreed charges. There you would
26 not be able to put an increase on them no matter
27 what formula you use. What happens to movements
28 of that kind? These are short haul movements
29 by your definition.

30 MR. STECHISHIN: There is going to be



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2 always certain items of traffic which the railways
3 cannot increase under any circumstances. Now, I
4 don't think that the existence or the use or the
5 failure to use our formula is going to change that
6 situation one iota. Any increase is going to be
7 on those items which can take that increase. Now,
8 the question is how are we going to divide that
9 money, add some here and take off some here and
10 come up with the same item.
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2 COMMISSIONER MANN: What I am saying is
3 simply this: there you have traffic which is now
4 actually highly competitive. Suppose it wasn't moving
5 under an agreed charge or under a mileage commodity,
6 then you have the alternative of either a straight
7 horizontal increase or your formula. Under your
8 formula, if I understand aright, that haul would take
9 a greater increase in rates for the short haul than
10 a straight horizontal increase would have given. Isn't
11 it then a natural consequence that that traffic under
12 your formula moves faster into the competitive range
13 than it would under the straight horizontal increase?

14 MR. STECHISHIN: Well, the particular traffic
15 you are talking about -- and this is only an illustration;
16 it does not necessarily follow -- the traffic you are
17 talking about is the same increase whether you use our
18 formula or the 20 per cent.

19 COMMISSIONER MANN: That happens to be in-
20 cidentally so.

21 MR. STECHISHIN: That particular rate range --
22 it is more or less the average rate in Canada, and
23 it is that average rate that we say must remain un-
24 changed because the railways must get their additional
25 money if they are going to stay in business. We have
26 had a greater increase on rates below the average and
27 lesser on those above the average.

28 COMMISSIONER MANN: Well, we are not that far
29 apart on our understanding of this. Since you are
30 giving relief to the long haul shipper at a given



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2 revenue requirement, that money must be found from
3 somewhere else, and that money must of necessity be
4 found from the short haul shipper.

5 MR. STECHISHIN: It is inevitable.

6 COMMISSIONER MANN: Mr. Cooper has already
7 touched on this, but what worries me is that very much
8 of the short haul movement is intensely competitive.
9 If under your formula the rates on that traffic increase
10 faster and higher than under the straight horizontal
11 method, you are moving it into the competitive range
12 at an even faster pace?

13 MR. STECHISHIN: Well, I have never been
14 able to accept the fact that the short haul traffic
15 is more competitive than the long haul. It is a common
16 feeling, I gather, but I have never had any evidence
17 or proof that that fact exists. If we start out on
18 that assumption, without establishing it, we will
19 never get anywhere. I think it can be and only the
20 Waybill Analysis shows it can be, because today the
21 bulk of that traffic is the non-competitive traffic in
22 the short haul area. The other point that is very
23 important is that whereas the short haul traffic can't
24 take a one-cent increase without making it competitive,
25 the long haul traffic, if you don't put the one cent
26 on there, is going to take 10 or 50 cents increase and
27 then you are sure it is going into the competitive
28 area. Let us try this, and if it does not work the
29 railways would have to go back to the Board for another
30 increase, and we would get 20 per cent plus 3.5 cents



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2 and you would still wind up with what we have got today.
3 But, at least, you have experimented.

4 COMMISSIONER MANN: Is it your feeling that
5 the railways have somewhat, perhaps unwittingly and
6 without intent to do so, exaggerated the seriousness
7 of competition on the short haul?

8 MR. STECHISHIN: I am quite convinced they
9 have because I do recall on a number of cases before
10 the Board where people from that part of the country
11 say, "We can't take another increase," and since that
12 date they have taken six or seven increases and they
13 have paid it and they are still in business today.
14 So, I look with a certain amount of skepticism on
15 their statements that they can't take it.

16 COMMISSIONER GOBEIL: If your system does
17 not work, we will not be any worse off than the way
18 we are now?

19 MR. STECHISHIN: That is correct. We have
20 said here that instead of a 20 per cent increase, give
21 the railways 10 per cent plus 3.5 cents. Let us assume
22 that is done and the railways only get 10 per cent on
23 the long haul and they have a heavy load on the short,
24 and they can't collect it: then, the railways come back
25 for another increase and we have 20 per cent on our end
26 of it and the other end has whatever the railways could
27 get.

28 COMMISSIONER GOBEIL: And if it works it
29 will make it easier for the long haul?

30 MR. STECHISHIN: Exactly.



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2 MR. COOPER: Q. Paragraph 52 on page 20
3 you say:

4 "There are indications that some of this
5 low-rated short haul traffic may be moving
6 below out of pocket costs, and theoretically
7 at least should be abandoned to competing
8 modes of traffic."

9 What are those indications?

10 MR. STECHISHIN: The rate level itself.
11 The fact that you find rates here which are below what
12 the railways normally charge for a switching movement --
13 the rate of 3.2 cents, and this is coming back to
14 153-A: 4.5 cents, 4.7 cents. The railways charge
15 6½ cents for a switching movement. The American
16 figures indicate a terminal cost of around \$60 a car.
17 A lot of the shipments referred to here -- I have
18 checked and they yield to the railways less than \$60
19 a car for a movement of anywhere to 100 miles. It
20 looks to me as though they are not -- the railways
21 have told us nothing is moving at below cost.

22 MR. MAURO: At and east rates?

23 MR. STECHISHIN: They are admitting that now,
24 I understand.

25 MR. COOPER: Q. I will now go on to page 21,
26 "Interline Rates." I haven't got a great deal to
27 address myself to there, but I refer to page 23 and
28 Exhibit 153-F. This exhibit is Diagram II-24,
29 "Choice of all rail routes available to shippers between
30 eastern and western Canada, 1939." If I understand



1
2 the situation correctly, as at the present time there
3 are no rail routes available to shippers between eastern
4 and western Canada other than the C.P.R. and the C.N.R.
5 routes, and the reason for that is that it is more
6 advantageous now to ship on those lines rather than
7 on American lines because of the bridge subsidy?

8 MR. STECHISHIN: That is not entirely true.
9 That is true in so far as the bridge subsidy, applicable
10 only on Canadian lines, has eliminated the effective
11 value of the routes via the United States. However,
12 they have also cancelled the route C.N.R. to North Bay
13 and C.P.R. to Winnipeg -- Hamilton to North Bay on the
14 C.N.R. They have also cancelled the route on the
15 C.P.R. out of Port Arthur with the Canadian National
16 Railways from Port Arthur to Winnipeg. So, if you
17 originate on the C.P.R. in Hamilton you must ship
18 C.P.R. right through to Winnipeg, and if you originate
19 on the C.N.R. you must ship right through on the C.N.R.
20 to Winnipeg, with one major and, in my opinion, inex-
21 plicable exception: you are still permitted to ship
22 C.N.R. to North Bay, and then on the Ontario Northland
23 to Cochrane, and back onto the C.N.R. to Winnipeg. I
24 haven't been able to find out any understable or logical
25 reason for leaving that route in when they haven't left
26 in the others.

27 Q. Would it be true to say that whatever
28 has been lost in narrowing the choice of routes has been
29 more than compensated for in so far as shippers are
30 concerned by the bridge subsidy?



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2 MR. STECHISHIN: If you are measuring it in
3 terms of dollars -- I don't know; I don't think I can
4 say yes or no to that question, because no one can
5 measure the extent by which the competition has been
6 lessened by the bridge subsidy. It may be that that is
7 not so, that they are actually paying more because of
8 the elimination of that competition than the bridge
9 subsidy is worth.

10 Q. The answer is neither yes nor no, but
11 "maybe"?

12 MR. STECHISHIN: I am afraid so.

13 COMMISSIONER MANN: What I wanted to find out
14 particularly, in Exhibit 153-F, is, the American gateways
15 are still available, the American routings are still
16 available for competitive rated traffic and, where the
17 agreed charges so stipulate, on agreed charges: is
18 that correct?

19 MR. STECHISHIN: In certain cases, yes. I
20 don't say they are all gone, but most of them are and
21 most of the competitive rated items also do not include
22 American routes.

23 COMMISSIONER MANN: The curtailment of routings
24 really hits more, doesn't it, on class rated traffic and
25 non-competitive commodity rated traffic which is a small
26 part of the movement?

27 MR. STECHISHIN: Not to Western Canada, it is
28 not a small part. It is a major part -- especially
29 the commodity rated traffic. Not too many items in
30 5-J are marked "competitive."



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2 MR. COOPER: Q. If the bridge subsidy were
3 moved would competition develop for the Canadian lines
4 by the use of the American lines?

5 MR. STECHISHIN: I have been informed by
6 American railways that it would -- I should say by one
7 American railway that it would.

8 Q. You have not been informed or given any
9 estimate-- perhaps it would be impossible to give an
10 estimate --as to the degree of competition?

11 MR. STECHISHIN: Well, it is completely
12 hypothetical until the situation occurs where it can
13 manifest itself.

14 Q. On page 25 you have a list there of
15 some competitive stations with the official interchange
16 points marked with asterisks: both lines, of course,
17 serve all stations there mentioned, and there are these
18 interchange points at the stations marked with the
19 asterisks, as I have said. What is your suggestion
20 with respect to these official interchange points?
21 Would you have more of them, and, if so, what test
22 would you apply as to putting in an official inter-
23 change point, and is there any possible way of
24 estimating the cost of doing what you want done with
25 respect to that?

26 MR. STECHISHIN: I don't think I would want
27 to go so far as to suggest that there be numerous
28 additional interchanges added to the existing railway
29 plants, but I am impressed with the fact that in the
30 United States the rates are based on rate groupings over



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2 the shortest available mileage, and a rate would then
3 be computed over a junction point wherein an inter-
4 change exists at that junction point.

5 Q. Would it be fair to say that what you
6 are suggesting is that even though you haven't got an
7 official interchange point at every one of these
8 competitive stations, nevertheless, they should be
9 deemed to be official interchange points for the pur-
10 poses of rate making?

11 MR. STECHISHIN: For rate making purposes,
12 yes.

13 Q. The 153-G diagram shows this situation
14 as between Winkler and Gardenton. Would it be fair
15 to suggest that that is not a very realistic situation
16 because traffic would move from Winkler to Gardenton
17 not by rail at all but by road? Would I be correct
18 in suggesting that?

19 MR. STECHISHIN: Well, if you followed it up
20 by asking why it moved by road, it would be fair, yes.

21 Q. Well, why is it moved by road?

22 MR. STECHISHIN: Because of the extremely high rate
23 which would have to be paid on the basis of cal-
24 culating it to and from Paddington.

25 Q. But surely the road movement would be
26 so very much shorter, in any event -- there is a
27 road between the two points?

28 MR. STECHISHIN: Yes, the road almost follows
29 the rail line as so many of our roads in Manitoba do.
30 The road and direct rail mileage is not significantly



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different.

Q. I thought perhaps it might be. You say it is not significantly different, and if it wasn't for all that backhaul business you would get traffic moving by rail between the two points?

MR. STECHISHIN: The railways would have a chance at least of getting it.

Q. Winkler is on the western side of the Red River, but Gardenton on the other?

MR. STECHISHIN: That is correct.

Q. If you want to put in an interchange point at Morris you would be met by the physical difficulty of a bridge and that sort of thing?

MR. STECHISHIN: Yes. I have checked the map, and it is almost identical mileage.

Q. But there would be expense in getting an official interchange point at Morris?

MR. STECHISHIN: The railway does not cross the river at Morris. It goes south to Emerson and then crosses. Both the C.P.R. and C.N.R. run on the east bank of the Red River, and the mileage traced here shows that both of them are on the west bank, and then it goes down to Emerson where it crosses. The direct line from Paddington to Emerson is on the west shore.

Q. At page 27 you have a paragraph there, paragraph 63, and continuing on to page 28, and you are speaking there of a situation in eastern Canada as contrasted with western Canada, and at page 28 you



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2 state:

3 "This tariff is only applicable between
4 specified stations in eastern Canada."

5 What specified stations are those, and the point of my
6 question is this, that it is my understanding that in
7 eastern Canada there are no joint through rates between
8 lines of the Canadian National and the Canadian
9 Pacific; is that correct?

10 MR. STECHISHIN: Well, I am referring there
11 to Canadian Freight Association Tariff No. 6 which
12 lists, as near as I can tell, several thousand of them.

13 MR. COOPER: Perhaps we could break there,
14 Mr. Chairman, and I will check this.

15 THE CHAIRMAN: Yes.

16
17 ---Short recess.
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THE CHAIRMAN: Order, please.

MR. COOPER: Mr. Stechishin, we were speaking of paragraph 63. I believe the tariff to which you refer, CFA 6, is actually CFA 3; is that right?

MR. STECHISHIN: I do not have the tariff in front of me. I just remember CFA 6 -- I may be wrong. But there is such a tariff.

Q. But in any event, to clear the record, I am instructed that what you have said in paragraph 63 represents the situation accurately. Now, western Canada did apply for the same treatment as eastern Canada has received?

MR. STECHISHIN: I cannot speak for western Canada. I do know that the Winnipeg Chamber of Commerce did, and were turned down.

Q. What reasons were given to the Winnipeg Chamber of Commerce after application being turned down?

MR. STECHISHIN: The railways stated in their opinion such a tariff was not necessary. An opinion which was not shared, I might add, by the Winnipeg Chamber.

Q. You have nothing more than that?

MR. STECHISHIN: They did not apply to the Board, if that is what you mean, no.

Q. I turn now to the section commencing on page 32, the Bridge Subsidy, and from now on, Mr. Stechishin, there are just a few points which I



1
2 wish to touch upon. I do not intend to go into
3 detail on the figures which you have from this point
4 on.

5 You have a substantive section later on
6 with respect to the bridge subsidy and, as I understand
7 it, this part of your submission in effect is dealing
8 with the bridge subsidy in relation to inter-line
9 rates?

10 MR. STECHISHIN: That is right.

11 Q. It might possibly be a little more
12 informative than if this sub-heading read "Bridge
13 Subsidy in Relation to Inter-line rates"?

14 MR. STECHISHIN: That is correct.

15 Q. I refer to your paragraph 66 through
16 paragraph 70, when you are talking there about the
17 equalized scale on scrap iron. You are referring
18 there to the situation with respect to the equalized
19 scale on scrap iron, and you also deal with the
20 situation with respect to vegetables, in paragraph
69 and I believe also in paragraph 70.

21 Has this matter been taken up with the
22 railways?

23 MR. STECHISHIN: By individual shippers,
24 yes.

25 Q. I may be wrong, Mr. Stechishin, but
26 as I understand it the judgments of the Board in the
27 equalization of commodity rates cases dated
28 September 18, 1957 and December 19, 1958, might have
29 some application to this situation and might possibly



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2 be the means of affording relief from the situation
3 as you set it out in those particular paragraphs.

4 MR. STECHISHIN: That may be. I do not
5 know. I do know this, Mr. Cooper, that every
6 illustration that I have used here on rates of one
7 firm or another has its basis in an actual situation
8 which did occur. In some cases, I have changed the
9 point of origin or destination because some of the
10 shippers who approach me with these problems do
11 not like to have their particular firm associated
12 with any complaint. I have changed the -- well,
13 as they say in the movies, the names have been changed
14 to protect the innocent. I have done that.

15 Q. Not to protect the guilty?

16 MR. STECHISHIN: Not to protect the guilty.
17 But they are all based on actual complaints which
18 were received in my office.

19 Q. Page 33, paragraph 76. I refer to
20 that generally. I question your statement on page
21 34 in paragraph 76:

22 "The Board prescribed that the
23 reduction would be only 50 per cent
24 based on the trackage, expressed in
25 cents per one hundred pounds, and 50
26 per cent on the total rate from
27 point of origin to final destination,
28 expressed as a percentage. The
29 cents per hundred pounds portion
30 reflects the elimination of the burden



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2 of that portion of the trackage, as
3 recommended by the Turgeon Commission.
4 The percentage of the through rate
5 has no relation to the trackage
6 which was to be lifted from the rate
7 structure and is merely an overall
8 rate reduction."

9 As I understand it, and you will correct
10 me if I am wrong, the situation with respect to the
11 bridge subsidy is that the reduction in the relative
12 level of rates, as referred to in section 468,
13 subsection 5 of the Act can be applied in such manner
14 as the Board may allow or direct, and following that
15 power given to the Board, the Board merely applied
16 the reduction by the percentage method combined
17 with a cents per pound method to do what they
18 considered equitable as between competing interests.
19 There is no direct relationship, is there, between
20 the cents per 100 pounds portion as reflected in
21 the elimination of the burden of the portion of the
22 trackage and the percentage of the through rate
23 just relating to a pure rate reduction?

24 MR. STECHISHIN: Well, Mr. Cooper ---

25 THE CHAIRMAN: That was a compromise?

26 MR. STECHISHIN: It was a compromise
27 between two different positions which was done by
28 the Board of Transport Commissioners at the time
29 they decided upon it.

30 MR. MAURO: Alberta won another fight!



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MR. STECHISHIN: The point we are making here is that the trackage is the same, regardless of the ~~distance~~ that is traversed, and therefore -- it's like a toll bridge in reverse. You have a toll on a bridge; it might be 50 cents or \$1.00. It is not related to how much beyond the bridge you go, or how little beyond the bridge you go. It's the same amount. Similarly, if you are paying a subsidy on a bridge, you should receive a flat sum regardless of how far beyond the bridge you go.

Q. If the matter is left to an authority and the authority has competing interests before it and decides that the most equitable manner they can deal with it is the way they have dealt with it; well then, you can hardly say that one portion of that is related to trackage and another portion is related to something else?

MR. MAURO: That is, of course, just the opinion of the province of Manitoba. We feel it is inequitable. The Chairman knows some of the background of this, and we bring our problem before you.

MR. COOPER Q: But did not the Board in that case do the very thing with ~~relation to the~~ bridge subsidy that you are suggesting should be done to avoid the problem of horizontal percentage rate increases?

MR. STECHISHIN: Exactly, but in one case we are saying it must be related to the terminal



(Cooper)

1 cost, which is in one area, and the line-haul cost.
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3 Now, what the Board has done here is related part
4 of it to the fixed cost, or to the constant cost of
5 the bridge on that portion of the bridge, and the
6 balance on that portion beyond the bridge.

7 Q. I go along now, Mr. Stechishin, to
8 paragraph 109 on page 48. In the first place, no
9 one has yet defined satisfactorily what is a
10 competitive rate. Competitive rate is defined
11 in the Railway Act, is it not, in section 331,
12 subsection 4. What is the matter with that
13 definition; or, what definition would you suggest?

14 MR. STECHISHIN: Well, that definition
15 is one that uses almost the same word as defined
16 in the definition: a competitive rate is one
17 issued to meet competition; I think. Then, I say,
18 what is competition?

19 Q. Well, perhaps it is a descriptive
20 form of words, rather than a definition. But what
21 else can you suggest that would be of assistance to
22 the Commission in defining what is a competitive
23 rate?

24 MR. STECHISHIN: Can you give me that
25 section again, please?

26 Q. 331, subsection 4. Perhaps it
27 is a definition by description, if one can have such
28 a thing. But what would you suggest?

29 MR. STECHISHIN: It says the competitive
30 rate is a class or a commodity rate that is used to



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2 meet competition. So, I find that definition
3 completely meaningless because it says the competitive
4 rate is the class rate or a commodity rate which
5 is issued to meet competition. Well ---

6 COMMISSIONER MANN: One of the significant
7 points in the definition is that it will not
8 automatically -- the competitive rate so defined
9 will not automatically apply to intermediate points.
10 Isn't that one of the significances in that
11 definition?

12 MR. STECHISHIN: Well, even there the
13 competitive rate does not apply to intermediate
14 points if it is so designated in the tariff, and
15 the railways have on occasion been ordered to say you
16 have a rate in the tariff; we think it is a competitive
17 rate, therefore, mark it so in the tariff. So,
18 there is no change in the rate, but by order of the
19 Board the rate yesterday was a class rate or a
20 commodity rate and today it is a competitive rate.
21 I find it almost impossible to understand just
22 exactly what is and what is not a competitive rate.

23 Q. How would you define it, Mr.
24 Stechishin?

25 MR. STECHISHIN: It is something I
26 will leave to the lawyers.

27 COMMISSIONER GOBEIL: Would you infer
28 at the same time that this is an element of competition?

29 MR. STECHISHIN: I think possibly I would
30 have to go to the other side and say virtually



1 every rate has an element of competition in it.

2 THE CHAIRMAN: Now, it has?

3 MR. STECHISHIN: I think even at all times.

4 COMMISSIONER MANN: Does it not follow,
5 then, that the distinction in our terminology between
6 class rates and non-competitive rates, non-competitive
7 commodity rates and competitive commodity rates is
8 largely a matter of illusion? This Commission
9 has heard, of course, from the trucking industry
10 with regard to the Freight Rates Reduction Act, and
11 it was stated there, as I recall it, that all rates
12 were at a given level competitive. So, how do you
13 define then a competitive rate? This is what we
14 need some help with.

15 MR. STECHISHIN: Exactly. I cannot
16 see how you can spell something out and say that
17 this is, and only this is a competitive rate; or
18 only if it meets these conditions is it a competitive
19 rate.

20 I did deal with this in paragraph 110 --
21 something of what we are now discussing, Mr. Cooper.

22 COMMISSIONER MANN: Do you think, then,
23 that the Railway Act should be amended or that these
24 distinctions in the Railway Act are superfluous
25 and should therefore be omitted?

26 MR. STECHISHIN: I am inclined to think
27 they are superfluous; the distinctions between the
28 one and the other.
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MR. COOPER Q: Does section 334 of the Railway Act give any assistance in this matter dealing with the filing of competitive tariffs?

"The Board may require a Company issuing a competitive tariff to furnish at the time of filing the tariff or at any time the information is required by the Board to establish that....."
Then follows A, B and C with which we are all familiar.

MR. STECHISHIN: Before I answer that, I might just go back a bit. If we look at the present existing freight rate structure in Canada, all of A and B group rates are competitive, because they are adjusted to fit the Toronto normal rate, excepting maybe Toronto city by itself. If that is so, then what rates are not competitive? I find it practically impossible to say any one rate is not competitive in any respect whatsoever.

In paragraph 111 I dealt with rates on products. I have heard of cases where a producer has gone to the railways and said: "You have reduced the rate on steel, therefore you must reduce the rate on beams, because we are competing with the steel producers, or aluminum."



(Cooper)

Q. What you are saying in those paragraphs is that the competitive rate will reflect competition between one railway and another, may reflect competition between competing carriers, may reflect competition in a given market.

MR. STECHISHIN: You asked another question there. I think Section 334, Mr. Cooper.

Q. Yes. I just asked to see if that would give any assistance to you.

MR. STECHISHIN: Now, you are coming into a question of law and I am not going to try to deal with the legal aspects of it. But to my thinking the same restrictions which are applied here to competitive rates should apply to class rates or commodity rates. I don't think the fact that it is competitive is significant; any rate should be compensatory.

Q. You refer to sections 110, 111, and I was merely summing up the effect of those by saying that you are saying that competitive rates may be competitive one railway against another, or (b) competitive with other carriers, or (c) competitive in a given market.

MR. STECHISHIN: I don't think you have completely listed them all.

Q. What are the others?

MR. STECHISHIN: But it would certainly include those.

COMMISSIONER MANN: Mr. Cooper, before you leave that.



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If you are going to get rid of the distinction between competitive and non-competitive rates in the Railway Act, what are the implications of that on the long haul, short haul provisions of the Railway Act?

MR. STECHISHIN: You are started off with a presumption that I haven't made. You suggested that we get rid of the competitive rates in the Railway Act. It is largely academic, what you call a rate.

COMMISSIONER MANN: I was going to suggest it is not quite so academic because of the long haul, short haul classification. If you had no designation of competitive rate, of the competitive competition in the Railway Act, all these rates would be subject to the long haul, short haul provision of the Railway Act, whether it was traffic from an intermediate point or to an intermediate point.

MR. STECHISHIN: I think if you will check the Interstate Commerce Act you will find they don't specify competitive rates.

MR. COOPER: Q. Mr. Stechishin, will you turn to page 54 where you make your recommendations with respect to the long haul and short haul clause, and the first of those is "That the railways should not be permitted to select the centres which will be allowed to compete in a given market." Now, how do you suggest that the railways now select the centres which will be allowed to compete in a given market?

MR. STECHISHIN: I think that our appendices 2 and 3 certainly indicated that a competitive situation



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2 arises in, say, Vancouver or Toronto, as the case may
3 be, and the Toronto shipper goes to the railways and
4 says: "I am no longer able to ship into that market.
5 I want a competitive rate," and the railways give him
6 a reduced rate, and the shipper at the intermediate
7 point goes to the railway and says he is having trouble
8 from external competition, he is frozen out of the
9 Toronto market and the railways will not restore him
10 to his former position vis-a-vis Toronto, as the case
11 may be.

12 Q. I have still a little difficulty in
13 following the ---

14 MR. STECHISHIN: Perhaps I might give a
15 recent example. I am not too sure of the actual rates,
16 but as I recall it was a reduction in rates on steel
17 from Hamilton to Vancouver, presumably to meet overseas
18 competition. A short while later the man from Sault
19 Ste. Marie came into the railways and said: "I, too,
20 am now frozen out of the market," and the railways
21 say: "All right, we will give you a reduced rate, but
22 it will be at the same level as the Toronto rate." And
23 the man from Selkirk wants to get the same rate, and
24 then the man from Vancouver comes in, and he got the
25 Toronto rate plus something, or the Toronto rate.

26 COMMISSIONER MANN: I am having a little
27 difficulty in following this, too. I refer you to
28 paragraph 122:

29 "Competitive rates, in the railways' best
30 interests should not merely be confined to



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2 between the points where the competition
3 operates but rather to the common market
4 or markets from the various producing
5 points."

6 Now, bear with me while I give you this example of an
7 actual situation. Brick is produced at Redcliff,
8 Alberta; it is also produced at Milton, Ontario, and
9 it is also produced in New Glasgow, Nova Scotia. All
10 want to get into the Ottawa market, say. In addition
11 to that, all these producers face competition of the
12 Ohio or Pennsylvania producers of brick. My example,
13 unlike yours, doesn't affect producers in one line of
14 haul. What would be your recommendation in that
15 instance?

16 MR. STECHISHIN: My recommendation would be
17 that the railways should give each one of the three
18 Canadian producers a related reduction either to the
19 present rates or the same basic standard and, as I
20 mentioned in one of the illustrations, they might use
21 the out of pocket costs plus a fixed number of cents
22 and let the three producers fighting it out to
23 get into that market. But each would be given the same
24 chance to get into that market, and if one was at
25 any disadvantage it would be because of geography
26 and not because of the railways. I would oppose the
27 fact that the railways might put in an exceedingly
28 low rate from Cooksville and suggest to the man from
29 Nova Scotia that he pay the normal rate to that market.
30 It is consistent with the statements made, I think, by



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2 Mr. Hyndman, and he said that instead of publishing
3 a point to point agreed charge the railways should
4 say that all bricks going to Ottawa will move at
5 50 per cent of the normal rate, or whatever figure they
6 might use.

7 COMMISSIONER MANN: I have a little doubt about
8 it as to whether this can be done when the Cooksville
9 producer may get into Ottawa by for-hire truck carriage
10 or by his own truck, whereby the Nova Scotia producer
11 can't do so.

12 MR. STECHISHIN: I don't think that should have
13 any particular bearing on it. The mere fact that he
14 can't use this for-hire truck is of no interest to the
15 railways. The railways' sole interest is to get
16 traffic back on the railways, whether he be trucker or
17 for-hire.

18 COMMISSIONER MANN: Might they not maximize
19 revenue by lower rating the Cooksville rate below what
20 they determined for the Redcliff and Nova Scotia producer
21 so they can move the traffic on the rails and maximize
22 their revenues?

23 MR. STECHISHIN: Not necessarily. As long
24 as their rate is reduced where they can get traffic into
25 Ottawa by rail it is of no interest to them where it
26 comes from.

27 COMMISSIONER MANN: By lowering the rate the
28 Cooksville producer is able to undersell the Redcliff and
29 Nova Scotia producers?

30 MR. STECHISHIN: Unless they reduce their rates



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2 to a level which would attract the traffic; but it is
3 of no concern to the railways who supplies that market.

4 I might use another illustration to possibly
5 make that a little clearer. This is one that I have
6 used talking to other people. Let us assume that
7 you have, say, three points, A, B and C. The products
8 are produced at a triangle, at A and B, and shipped
9 into C. Now, if there were two different railways,
10 one running from B to C and one from A to C, and
11 there was a water route from B to C, the railway
12 from B to C or A to C would have to reduce the rates
13 to meet the water rate. Now, they will still say
14 they don't care whether this man or that man ships into
15 this market as long as it moves by rail.

16 MR. COOPER: Q. I just have one question
17 on your section relating to lake and rail rates, which
18 runs from pages 55 to 67. Reference was made yester-
19 day to the application of the Winnipeg Chamber of
20 Commerce. Does your evidence on this subject as
21 contained in paragraphs 124 to 148 inclusive raise any
22 matters which were not raised in the hearing before the
23 Board of the application of the Winnipeg Chamber of
24 Commerce?

25 MR. STECHISHIN: I don't think that the
26 Tables 12 and 11 were raised before the Board. I
27 certainly know it was an additional exhibit we put in,
28 the table that we distributed here and is now part of
29 the record, yesterday afternoon.

30 Q. Otherwise the matters have been raised



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on previous occasions before the Board.

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MR. STECHISHIN: To the best of my knowledge,
that is right.

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MR. MAURO: In case it is relevant to my
learned friend, almost all matters in connection with
the horizontal increase and also other inequitable
matters were raised before the Board.

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MR. FRAWLEY: It was an application of the
Winnipeg Chamber of Commerce for an order directing the
railways and water carriers under the jurisdiction of
the Board to remove alleged unjust discrimination, and
it is reported in 1948 J.O.R. & R., and it was dismissed.

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MR. COOPER: I realize, Mr. Mauro, that
many of these matters have been the subject of dis-
cussion before the Board in various proceedings. I
only asked that because it seemed so directly related
to that previous application.

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Q. Now, in your section dealing with
terminal line operations, you propose a terminal line
trackage maintenance fund, and that suggestion was
made in the submissions in Winnip?

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MR. STECHISHIN: That is correct, sir.

Q. Do you not think that the setting up

of such a fund would retard and slow up the process
of abandonment of branch lines? As I understand it,
the railways, if a branch line was declared to be in
the public interest, would obtain no benefit whatever
from the branch line trackage maintenance fund except
in so far as reduction of rates might possibly generate



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2 traffic for the railways.

3 MR. STECHISHIN: That is a pretty important
4 exception, I think.

5 Q. You regard that as an important exception?

6 MR. STECHISHIN: Yes, I do.

7 Q. That applied between all stations in
8 Canada, that reduction in rates. It is not directly
9 related to the area of the branch line.

10 MR. STECHISHIN: I would think so, yes. It
11 is federal money.

12 Q. Do you not think that the railways would
13 be more hesitant than they are now to apply for
14 abandonment of a branch line when, if it is declared
15 to be in the public interest, they get no direct benefit
16 out of it, and, secondly, they have to then reapply every
17 year with respect to that line?

18 MR. STECHISHIN: Now, what was the question
19 there again? Would it not retard the application of
20 abandonment?

21 Q. Yes.

22 MR. STECHISHIN: No, I don't think so. I
23 don't think this proposal gives any consideration to
24 completely paying the bill, as it were. This is for
25 maintenance of track, not for operation of the branch
26 line.

27 Q. It would seem to me that the railways
28 would be quite reluctant to come forward with branch
29 line applications if they were going to be met with the
30 decision that the branch line is in the public interest



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and therefore they get no direct benefit from the branch line trackage maintenance fund and they have to go back each year to see if it is still in the public interest.

MR. STECHISHIN: There was the statement by Mr. Donald Gordon; if this is an alternative to going to the Board, I think the railways should do it.

COMMISSIONER MANN: In the light of our earlier discussion that all rates are essentially competitive, is that not discriminatory?

MR. STECHISHIN: The publication of rates in the tariffs which we generally refer to as competitive are, in effect, in actual practice those which are carrier competitive. When I was thinking of competitive I was thinking of it in the broad sense. I can't think of any rates which are not. The rates in the Railway Tariffs today, competitive rates, are carrier competitive rates.

MR. FRAWLEY: Surely the market competitive rates to the west coast to keep out foreign competition are obvious.

COMMISSIONER MANN: I suppose the same theory also underlies any of the rates in one area, so market competition would enter there.

MR. STECHISHIN: Yes, but it is certainly the exception rather than the rule in the case of railway tariffs.

MR. COOPER: Q. You mentioned the Canadian National-Canadian Pacific Act. Are you suggesting any



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2 specific amendments to that Act? I know it is your
3 position that the railways should come forward with the
4 submission or with evidence that would warrant repeal
5 of the legislation.

6 MR. STECHISHIN: It is right in the section.
7 It is 190.

8 Q. In paragraph 190 you say:
9 "Failing this, we submit that the railways
10 should be required to act in accordance
11 with both the spirit and the letter of
12 this section."

13 My question is how are you going to require the railways
14 to do it. By amendment to the Canadian National-
15 Canadian Pacific Act or setting up a body which will
16 enforce cooperation, or what?

17 MR. STECHISHIN: The body has been set up,
18 and certainly if it has been successful from 1933 to
19 1950, I don't think we should just stop using it.

20 Q. It might not have sufficient teeth in
21 it if it hasn't been used since 1950?

22 MR. STECHISHIN: I don't know about sufficient
23 teeth, but it is there.

24 Q. There are other matters which I may have
25 dealt with, but I am sure they will be covered by
26 other counsel, and that is all I have to ask. Thank
27 you very much indeed.

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---CROSS-EXAMINATION BY MR. BRAZIER:

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Q. Mr. Stechishin, in your first chapter you deal with the basic principles of rate making as we have them in Canada at the present time.

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MR. STECHISHIN: That is correct, yes.

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Q. And you start off with the universally accepted principle that the lowest level of rates is set at a level which will return to the carrier an amount equal to, but not less than the variable costs of providing the said service?

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MR. STECHISHIN: That is correct.

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Q. That is a cost basis for the minimum scale that the railways should be permitted to charge?

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MR. STECHISHIN: Yes, that is correct.

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Q. To that extent, in any event, Manitoba would agree with the cost of service basis of rate making?

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MR. STECHISHIN: Yes, we would.

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Q. Just one question on the same page, page 2: I am not quite sure if Mr. Cooper covered this point, but the last sentence before the table reads "This results in a volume of traffic being maintained at rates which, in our opinion do result, in fact, in a net diminution of net revenues." Have you any specific traffic in mind that exists at the present time?

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MR. STECHISHIN: In so far as it being



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2 below the out-of-pocket costs, you mean?

3 Q. Yes?

4 MR. STECHISHIN: I have a number of
5 suspicions. I don't have any I can actually pinpoint.
6 There are no costing figures available in Canada.

7 Q. One of the difficulties is that
8 we haven't any cost figures from the railways to
9 determine that fact?

10 MR. STECHISHIN: That is correct.

11 Q. But, in your opinion, as an
12 experienced traffic man there are areas where you
13 are suspicious?

14 MR. STECHISHIN: Yes, there are.
15 Certainly, passenger is one.

16 Q. Then, passing to your second
17 principle, and that is fixing the upper level of
18 what has become known as the value of service
19 principle: from what you say there, I presume you
20 are not at least completely agreeing with the
21 statement made by the province of British Columbia
22 that that upper level should be the total cost of
23 moving the traffic?

24 MR. STECHISHIN: On an individual rate,
25 you mean? No, I am not in total agreement with
26 the B.C. submission in that regard.

27 Q. Page 5 where you set forth your
28 third principle: "The third basic principle or
29 factor governing the level of rates is that
30 established by public policy as evidenced by the



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2 Railway Act. The upper limits of the rates as
3 defined under the second principle above have been
4 limited and governed by an agency of the national
5 government on the basis that no shipper should be
6 required to pay a disproportionate share of the
7 transportation costs." In all the times that
8 you have appeared before the Board of Transport
9 Commissioners have you ever heard the Board rule
10 that the railways should not be permitted to charge
11 a particular rate because if they did that
12 shipper would be bearing a disproportionate share of
13 the cost of transportation?

14 MR. STECHISHIN: I don't think that
15 the Board has ever come out with just those words,
16 but I certainly think that is inherent in its
17 decisions.

18 Q. Have you anything in the decisions
19 of the Board -- and you have been appearing before
20 them for a good many years now -- and perhaps you
21 would not have it just at the moment, but maybe you
22 would like to consider it, and I would like to know
23 where the Board was ever concerned in the application
24 of that principle in fixing freight rates?

25 MR. STECHISHIN: Well, I just have to
26 disagree with you. I think that they certainly
27 were concerned with this principle.

28 Q. You think the Board has done that?

29 MR. STECHISHIN: I think they have.

30 Q. And you think you could point out



(Brazier)

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2 to the Commission ---

3 MR. STECHISHIN: It may not be spelled
4 out in actual words, but I am convinced in my own
5 mind that that is the basis of limiting the railways'
6 request to something less than what the railways
7 request.

8 Q. Speaking overall, you mean?

9 MR. STECHISHIN: Yes.

10 Q. But here you are speaking of a
11 shipper, and I presume---

12 MR. STECHISHIN: I am using "shipper"
13 collectively. I don't mean one individual man,
14 but it certainly would follow.

15 Q. Mr. Stechishin, to be fair about it,
16 the shippers collectively have to bear the total
17 share of the transportation costs. It is not a
18 question of a disproportionate share or any other
19 kind?

20 MR. STECHISHIN: That is right.

21 Q. It is the whole cost they must bear
22 as a body?

23 MR. STECHISHIN: Yes, and of that whole
24 cost no more than a specified amount should apply
25 in any one area. That was one of the purposes
26 of equalization, to adjust that proportion being
27 paid to different people in different parts of the
28 country.

29 Q. In any event, you say in this
30 paragraph here at page 5, paragraph 17 -- your



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reference there to a shipper is to a body of shippers collectively in Canada?

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MR. STECHISHIN: Collectively, or singly.

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Q. Well, what do you mean: "or singly"?

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I would like to know which, because I think there is a very major difference between whether a shipper has to pay a disproportionate share of the cost and the body of shippers in Canada, who are hundreds and thousands of people.

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MR. STECHISHIN: If the railways were to charge a shipper more than the class rate scale, as an illustration, the Board would rule against the railways and say that shipper must not be charged more than that specified amount which is the same for any other shippers in Canada.

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Q. Has the Board ever determined that the class rates in themselves represent a proper share of the transportation costs?

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MR. STECHISHIN: I would certainly have to answer that in the affirmative, yes.

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Q. Would you say they have?

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MR. STECHISHIN: I would say the Board certainly thought so.

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Q. Have you ever seen the Board of Transport Commissioners look at the costs of an individual shipper or the costs of shipments of a particular commodity?

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MR. STECHISHIN: I haven't seen them do it. I have heard they have done it, on some of



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2 the agreed charges. I think they brought in costs
3 on one of the pipe cases on the Pacific coast.

4 Q. The Cast Iron Pipe Case?

5 MR. STECHISHIN: Yes, that is right, and
6 there was one on coal where the railways were
7 given costs, and I understand that officially
8 the Board does obtain cost figures on other agreed
9 charges.

10 Q. Have they ever been discussed,
11 in your experience, outside of the two cases you
12 have mentioned?

13 MR. STECHISHIN: The Board does not
14 discuss these publicly.

15 Q. There has been some discussion on
16 this, but I would like to discuss it a little more
17 with you, on page 14, under the heading of "Recommendation:
18 alternative to horizontal percentage rate increases".
19 On page 14 you have a statement there "As a result,
20 a whole body of exception rates, based primarily
21 on U.S. railroad competition, has grown up between
22 the two areas giving British Columbia a major
23 block of relief from the full impact of horizontal
24 percentage increases." I presume there you are
25 talking about the Trans-continental rates?

26 MR. STECHISHIN: Yes.

27 Q. And I might add to that the agreed
28 charges under the Transport Act?

29 MR. STECHISHIN: When I speak here of
30 trans-continental rates, I was including agreed



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charges -- the entire body.

Q. You say they are based primarily
on U.S. railroad competition?

MR. STECHISHIN: Primarily.

Q. Do you admit any of them are based
on water competition?

MR. STECHISHIN: Pardon?

Q. Do you say any of them are based
on water competition?

MR. STECHISHIN: I would certainly think
some are, yes.

Q. Were you here the other day when
Mr. Matheson told us that the steel plant at
Sydney uses the water transportation between there
and Vancouver via the Panama Canal?

MR. STECHISHIN: I don't think I have
ever indicated I didn't believe the Panama Canal
was an influence.

Q Yes, and it is a substantial
influence?

MR. STECHISHIN: It is there and there
is traffic moving that way.

Q. I suggest to you that is as much
an influence as the U.S. railroad?

MR. STECHISHIN: Well, I have used
the word "primarily", and I have to stay with that
word -- "primarily".

Q. Will you also admit there is
some market competition?



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MR. STECHISHIN: Oh yes, very much so.

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Q. And that is an important factor?

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MR. STECHISHIN: Very.

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Q. So you have actually three factors there, might I say?

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MR. STECHISHIN: Water competition, market competition and American railroads, yes.

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Q. American transcontinental railway competition, market competition and I suggest to you you have one other form of competition and that is American railroad competition not trans-continental.

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MR. STECHISHIN: Well, that is market competition, I think.

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Q. Well, those are the three factors. In your Table No. 3 you have used the word "total at depressed rates". That rather gets under the skin of us in British Columbia.

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MR. STECHISHIN: I am sorry at the choice of words. I didn't mean anything offensive by that. If the rate was five per cent below normal it would be considered a depressed rate in the context I have used it here.

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Q. There are some details -- competitive rated cars from eastern Canada to British Columbia mainly travel on tariff IM; I think you will agree with that?

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MR. STECHISHIN: I believe Mr. Mann pointed out they all do.



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Q. My information -- and you might check and see if it is correct -- the 17 per cent increase which became effective on the 1st of December 1958 was applied to 132 items in that tariff and there were only 34 items excepted, and, further, on the 15th of December 1958, 13 of those 34 items had rate increases made against them. The 13 items were not all increased by 17 per cent, but they did receive some increase; is that in accordance with your information?

MR. STECHISHIN: I accept that information. I haven't checked it in detail, but I don't think I was particularly concerned with whether or not it took the last increase or the one before that. The point is that today they are at a lower level than the others.

Q. Well, you can say that of anything that is below class rate?

MR. STECHISHIN: Excepting that the commodity rates, I don't think I would include that in the same category.

Q. Why? They are below normal rates.

MR. STECHISHIN: Except that commodity rates are generally applicable across Canada. If I included commodity rates I am sure British Columbia's picture would look much worse because of the heavy volume of lumber which moves on commodity rates. I was trying to show the so-called normal rates and the rates depressed by



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2 reasons of competition.

3 Q. But they are all relevant?

4 MR. STECHISHIN: Oh yes, unquestionably.

5 Q. And, therefore, you can say as
6 between those two the commodity rate probably has
7 not taken its full increase?

8 MR. STECHISHIN: Well, I don't know
9 of any exceptions in commodity rates in taking the
10 full increase, but we were not speaking here of
11 increases as much as we were the body of exception
12 rates had been established.

13 Q. We mentioned three types of
14 competition at Vancouver: is it your opinion and
15 the opinion of the government of Manitoba that the
16 railways should be permitted to meet that type
17 of competition?

18 MR. STECHISHIN: I think we stated the
19 railways should be almost required to meet that type
20 of competition.

21 Q. And that has been the practice
22 of the Canadian railroads?

23 MR. STECHISHIN: That is correct.

24 Q. ...for many years now. There is
25 one other type of competition I would like to
26 mention briefly, and that is market competition
27 within Canada -- the different producing areas of
28 Canada. As I now read your brief you go so
29 far as to say that if the railways grant lower rates
30 for market competitive situations in Canada, it



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should extend it to all areas?

MR. STECHISHIN: No, no; to that market.

Q. To that particular market?

MR. STECHISHIN: From all areas to
that market, but not to other markets.

Q. So, it is your suggestion that
the railways should now henceforth be required to
extend the market competitive factor that may exist
between two points to intermediate points?



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MR. STECHISHIN: I do not see how a market competitive factor can exist between two points. It cannot. A carrier competitive factor could exist between two points; a market competitive factor could exist at a point.

Q. Let me say that the market competitive factor exists at Vancouver.

MR. STECHISHIN: All right.

Q. And you say that the railways should extend any benefit they give for that reason to producers in any other part of Canada?

MR. STECHISHIN: Well now, I'm sorry. You have left something out. I say if they give it to one of them they should give it to others on the same basis, going into that market.

Q. But what if the relief they give him is because of carrier competition? Should that be extended?

MR. STECHISHIN: No, I am speaking here of market competition.

Q. So, in so far as the low rates on steel products, steel and steel products to Vancouver is carrier competition, then you are not suggesting it should be given to intermediate points -- reflected in intermediate rates at all?

MR. STECHISHIN: I think maybe I have to change that answer, Mr. Brazier. I'm afraid that when I look at the effect on rail revenue it does not matter to the railway whether it is carrier



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2 competition or market competition in the broader
3 sense. I think they would have to extend it in
4 both cases.

5 Q. Even to carrier competition?

6 MR. STECHISHIN: Even carrier competition,
7 yes.

8 Q. And water competition?

9 MR. STECHISHIN: And water competition,
10 which is carrier competition. I was thinking of
11 water competition.

12 Q. So, as soon as you have one point
13 established in Canada where you have carrier or
14 water competition, then the railways are going to
15 have to spread the effect of that over their whole
16 rate structure for that particular commodity?

17 MR. STECHISHIN: To that market, in
18 the interests of improving their own net revenue,
19 yes. Our whole point hinges on that one
20 statement where the carriers should not be
21 permitted to choose.

22 Q. I suppose the carrier is not the
23 one who has chosen the fact that Vancouver is a
24 seaport where water competition has to be met?

25 MR. STECHISHIN: No, not for a moment,
26 but the carrier has chosen that they will publish
27 a low rate from point A to Vancouver. Having
28 made that choice, then I say that it should be
29 extended to other points in the same direction, and
30 only to the same market and on a particular



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2 commodity that is subject to competition.

3 Q. But they would not extend that to
4 any intermediate point along the line?

5 MR. STECHISHIN: No, just from the
6 intermediate points.

7 Q. I do not think my friend, Mr.
8 Frawley would agree with you on that point.

9 Now, Mr. Stechishin ---

10 MR. MAURO: He would, to the extent
11 that the rates from Calgary to Vancouver would
12 reflect the geography.

13 MR. BRAZIER Q: You have two sections
14 in your brief with regard to the bridge subsidy,
15 Mr. Stechishin. Now, on page 32 you quote from
16 the Royal Commission, the Turgeon Royal Commission,
17 and in the middle of the third sentence of the
18 first paragraph you quote there:

19 "The problem presented is that
20 of maintaining this link so long at
21 least as it does not provide sufficient
22 revenue for its maintenance."

23 Now, you take it from that that the
24 previous Royal Commission was just saying that
25 the subsidy should be there until such time as it
26 did provide sufficient revenue for its own
27 maintenance. Do you think the time has arrived;
28 in other words, the time has arrived to investigate
29 the revenue produced in that area?

30 MR. STETCHISHIN: I have no idea whether



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2 the time has arrived or not, Mr. Brazier.

3 Q. If it has, would Manitoba support
4 the elimination of the bridge subsidy?

5 MR. STECHISHIN: I think if that
6 situation does arrive we will certainly take a look
7 at it at that time, but we have not as yet, because
8 it is a hypothetical question.

9 Q. Would the province of Manitoba
10 agree that the bridge subsidy is effectively --
11 the bridge subsidy is against the province of
12 British Columbia?

13 MR. STECHISHIN: Would we agree that
14 effectively the bridge subsidy is against the
15 province of British Columbia? No, we would not.

16 Q. No. Now, what do you say as to
17 the situation of a manufacturer in Vancouver who
18 wants to ship into the prairie market?

19 MR. STECHISHIN: I think that the point
20 you are discussing now, that the bridge subsidy
21 is applicable exactly the same and probably to the
22 same extent in the province of Manitoba. There
23 are people in Manitoba who benefit from the bridge
24 subsidy and people who lose by it, and I think the
25 same situation exists in Vancouver. Certainly
26 your Vancouver manufacturer competing into the
27 prairie market has to compete with people in the
28 east who get the benefit of the subsidy, but the
29 Winnipeg shipper shipping into the prairie market
30 also has to compete with the eastern shipper shipping



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into the prairie market who gets a subsidy. It is exactly the same situation, but the effects of it are mixed.

Q. I suggest to you that not only that, it implies in the Railway Act something that is contrary to the principle of equalization?

MR. STECHISHIN: Well, sir, you have gone beyond where I could possibly go. I am not going to attempt to interpret the Railway Act, and equalization is a part of it.

Q. Let me put this to you. The existence of the bridge subsidy does eliminate equalization proceedings so far as rates from eastern Canada to the prairie or Manitoba, if you wish, and British Columbia to equi-distant points?

MR. STECHISHIN: If you are going to talk exceptions to equalization, of course there are a few out in Vancouver. Your rates are based on New Westminster instead of Vancouver, and an arbitrary two for one mileage to Victoria.

Q. I was going to ask you some questions, Mr. Stechishin, on paragraph 77, the elimination of certain routings between eastern and western Canada. Did that come about because of the bridge subsidy, or was it because the railways just decided to tighten up their routing arrangements?

MR. STECHISHIN: Oh, no, no. The routing arrangements that are referred to in that exhibit are all there today. With the exception of those



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two that I pointed out -- the cases where you go Canadian National partway and Canadian Pacific the rest of the way, or you start off with Canadian National and then you go via Canadian Pacific. The American routes in existence in 1939 are still in existence in theory, at least, but if a shipper is prepared to pay the higher money to go via the American route he can then use that American route.

Q. Then, the Canadian routings at the time were competitive with American routings, were they?

MR. STECHISHIN: That is correct, yes.

Q. So they were really competitive rates at that time, and should not have taken the bridge subsidy at all?

MR. STECHISHIN: You may be right.

Q. Well, you will recall what happened to the lumber rates from Vancouver to Montreal and Toronto?

MR. STECHISHIN: Yes, I do.

Q. For many, many years they were published as commodity rates?

MR. STECHISHIN: Yes.

Q. And then somebody laid a complaint that they were really competitive rates and they were so found by the Board and they lost the subsidy as a result?

MR. STECHISHIN: That is right, yes.



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Q. But that might be the situation
as far as these are concerned?

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MR. STECHISHIN: If I accept that
argument, I would have to go along and say that
every rate from A and B territory except Toronto is
also competitive and should not be subject to the
bridge subsidy?

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Q. Again, just one comment I might
have on page 41, paragraph 87. You say:

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"The first item of interest is
that none of the rates between Vancouver
and the points shown is based on the
actual mileage to or from Vancouver."

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They are actually based on New Westminster?

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MR. STECHISHIN: That is correct, yes.

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Q. And in most cases you have taken
a large area and applied the rates on either side
of it in other centres in Canada?

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MR. STECHISHIN: Yes, but they generally
take the largest point in that group and apply the
rate to the surrounding area. Here, they did not
take Vancouver and give the rate to New Westminster.
They took the New Westminster rate and gave that
to Vancouver.

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Q. I suggest to you it is rather
difficult to follow that when the point is the end
of the line?

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MR. STECHISHIN: New Westminster is the
end of the line?



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Q. No, Vancouver is the end of the line.

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MR. STECHISHIN: That is why it should have been the key point.

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Q. Why? Because there would have been no places in British Columbia beyond Vancouver which would have got the benefit, as there is in other centres?

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MR. STECHISHIN: I am afraid I cannot just accept that because it was not done in eastern termini.

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Q. Which one are you referring to?

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MR. STECHISHIN: Montreal, if you like.

Q. There are places east or west of Montreal that can be included. I suggest to you there is no other terminus, except perhaps Halifax?

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MR. STECHISHIN: It would be exceedingly difficult to have a terminus in the centre of metropolitan Toronto. It is at the extreme south end of Toronto, measured to western Canada, which is the exact same situation geographically as Vancouver measured from Winnipeg again.

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Q. Now, on pages 93 and 94 you deal with the rates per carload, dividing it between terminal costs and line haul costs. In your opinion do the class rates now in effect in Canada give effect to such division of cost?

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MR. STECHISHIN: No, sir, they do not.

Q. You think it would be a vital thing for them to do so? You think it would be advisable



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for them to be made on that basis?

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MR. STECHISHIN: I do not think I could say that without exception, no. I do not think that any one standard should be too rigid in the setting of rates.

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Q. Now, the scheme that you are advocating here, and one of the factors you mention in favour of it, at page 97:

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"...is that widespread adoption of either of these schemes could lead to the virtual elimination of freight classification."

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Are you suggestion there that we could do away with the freight classification?

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MR. STECHISHIN: To a fairly substantial degree, yes.

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Q. And you do not feel that that would lead to any difficulty?

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MR. STECHISHIN: No, I do not. I do not foresee any difficulty there at all.

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Q. One other at page 121, and I think Mr. Cooper spoke to the rates you quoted on page 121, Vancouver to Calgary, 72; Vancouver to Winnipeg, \$1.20. Those are rates for 1955?

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MR. STECHISHIN: I believe that is the correct date. I took them out of the tariff without referring to the supplements and changes made in the rate levels since the publication of the tariff itself.



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2 Q. On the next page, page 122, at the
3 top you say: "The \$1.20 rate is the normal Vancouver
4 ...".

5 MR. STECHISHIN: I should have said
6 "was".

7 Q. Thank you. Then, turning to your
8 exhibit 153-I, Appendix 2.

9 MR. STECHISHIN: That is the rate to
10 British Columbia coast?

11 Q. Yes?

12 MR. STECHISHIN: Yes, sir.

13 Q. I think without exception, is it
14 not correct to say that all the rates to Vancouver
15 quoted are agreed charge rates?

16 MR. STECHISHIN: Yes, they are, I believe.

17 Q. And a great many of the rates
18 quoted from Winnipeg are class rates?

19 MR. STECHISHIN: Are the lowest available.

20 Q. Well, they are class rates?

21 MR. STECHISHIN: They happen to be.

22 Q. They are class rates?

23 MR. STECHISHIN: But, I mean, they were
24 not selected for the reason that they were class
25 rates. They were selected because they were the
26 lowest available.

27 Q. Now, I am just picking these out.
28 You can charge me with an ulterior motive, if you
29 wish. I wonder how many people produce titanium
30 in Winnipeg?



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MR. STECHISHIN: I will be quite frank with you: I do not even know for sure what titanium is. However, Mr. Brazier, there, in addition to producing an article in a community you could also distribute it. I hear we have a possibility of developing a titanium producer in Manitoba.

Q. You have not yet?

MR. STECHISHIN: That is maybe one reason why we haven't yet.



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Q. Now, going to another item, another item you have there is automobiles. You manufacture automobiles in Winnipeg?

MR. STECHISHIN: No, we don't.

Q. So the existence of a rate from Winnipeg to Vancouver on automobiles is not important.

MR. STECHISHIN: We have had automobile assembly plants in Manitoba; sometimes cars can come up from the United States to Manitoba.

Q. Do they today?

MR. STECHISHIN: I don't know of any today, no.

Q. And in your experience, if such an assembly were established in Winnipeg, do you not think they would be probably able to get a lesser charge than the class rates from the railways if they applied to the railways?

MR. STECHISHIN: If they applied to the railways it is possible they might. However, many industries don't apply to the railways; they look at the rate structure and find out where they can locate.

Q. Do you find many industries doing that?

MR. STECHISHIN: We have had more than one unfortunate case of that.

Q. On those items which are produced, I suggest on the whole, the rates are not too far out of line.



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MR. STECHISHIN: What do you mean by
"out of line"? The same as Toronto? I don't
see one that is half of the Toronto rate.

Q. You are suggesting that those
rates should be half of the Toronto rates?

MR. STECHISHIN: No, I don't say half;
I say they should reflect the difference in mileage.

Q. Even if there is a rail competition
at Toronto and which doesn't exist at Winnipeg?

MR. STECHISHIN: It is impossible to
have rail competition from Toronto to Vancouver
without Winnipeg. I think you haven't closely
followed the tables we put in where I think we
showed quite conclusively that the railways would
make more money by publishing a lower rate from
Winnipeg than from Toronto. The question is
whether or not we can do something to increase the
rail revenue without increasing rail rates over
all.

Q. Would you agree that your figures
on increasing the rail rates are just a matter
of supposition until you find out what the costs
are to the railways?

MR. STECHISHIN: If you want to pin
me down to one cent; but I think the rates shown
here will be very close to the actual fact when
they are made available.

Q. We can't tell whether your
examples are correct or not until we get cost



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information.

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MR. STECHISHIN: Yes.

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COMMISSIONER MANN: On the exhibit that you have just discussed with Mr. Brazier you have a notation there on window glass, Winnipeg to Toronto. Now, the Toronto rate is an agreed charge. Do you know whether that is to meet import competition in window glass?

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MR. STECHISHIN: The railways never put on an agreed charge why they have issued it. I have heard that that is the case.

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COMMISSIONER MANN: Is there a window glass manufacturer in Winnipeg?

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MR. STECHISHIN: I don't know of one actually manufacturing window panes.

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COMMISSIONER MANN: Thank you very much.

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THE CHAIRMAN: On Monday morning there is to be a Community Chest meeting in this room. So we will adjourn until 10:30 and sit until 4:30, and Mr. Saunders will be the witness.

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---Adjournment.

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